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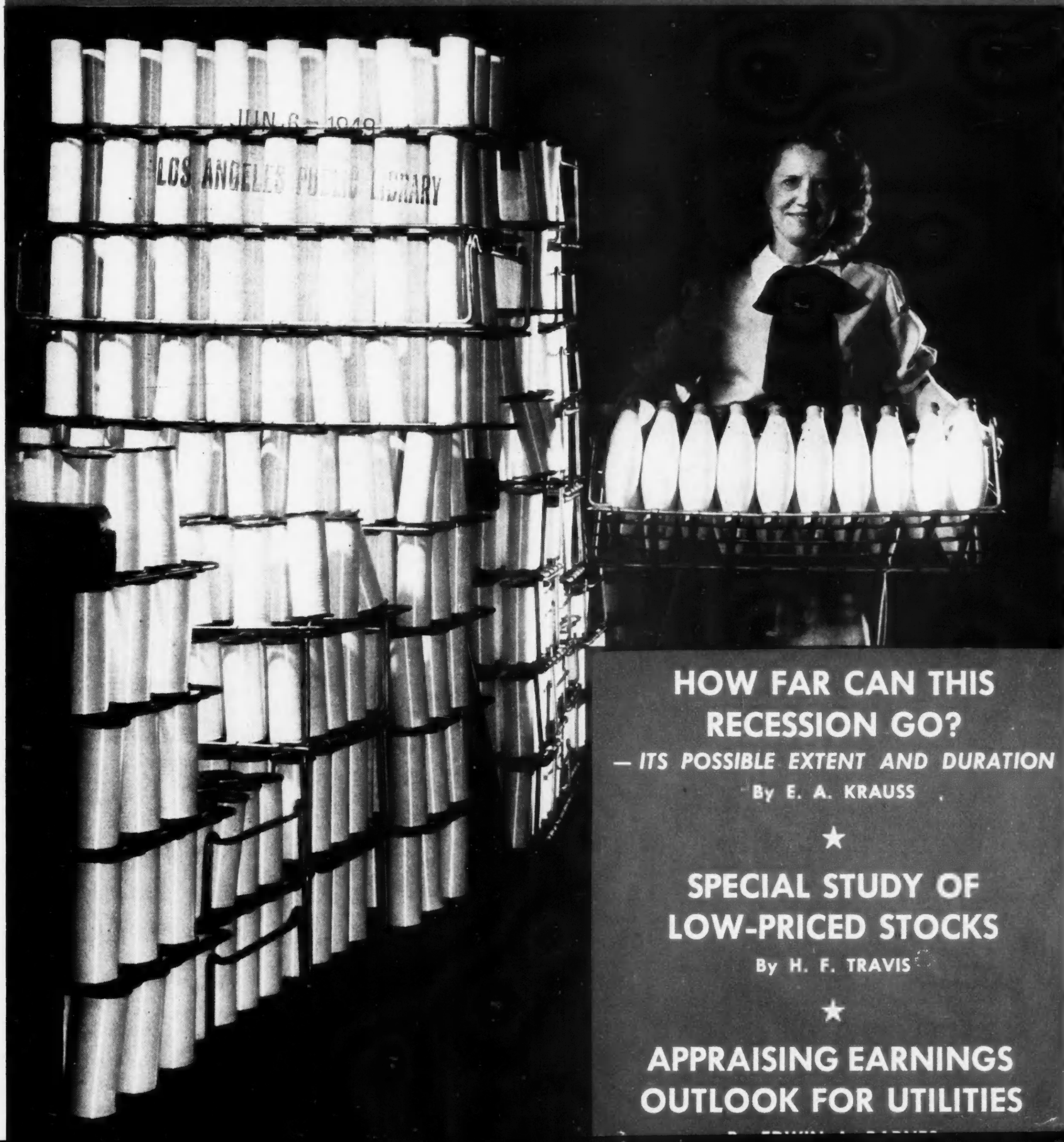

HOW FAR CAN THIS RECESSION GO?
— ITS POSSIBLE EXTENT AND DURATION
By E. A. KRAUSS

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SPECIAL STUDY OF LOW-PRICED STOCKS
By H. F. TRAVIS

★

APPRAISING EARNINGS OUTLOOK FOR UTILITIES

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CONTENTS

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THE MAGAZINE OF WALL STREET

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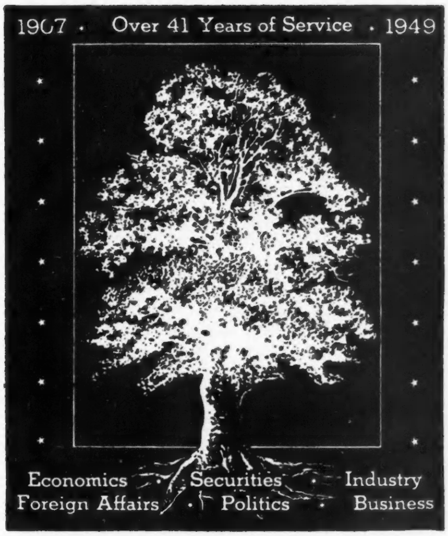


The Trend of Events

LABOR BILL IMPASSE... Though President Truman has voiced strong opposition to a compromise on the Administration's labor bill, there remains a large possibility that any measure passed during this session will be just that. This prospect finds confirmation in the attitude of organized labor which is talking more loudly every day what it plans to do next year to get even for what happened in Congress this year. It is their way of indirect admission that labor and the Administration is likely to be defeated in their effort at "repeal" of the Taft-Hartley Act.

Eventually, of course, the Act will be repealed though "amended" may be a better word for what's going to happen. Repeal as labor saw it was supposed to be nothing more than supplanting it with a weakly amended Wagner Act, but this evidently is not going to occur.

The current experience once again shows that labor leaders have to learn the important lesson that no matter how hard they electioneer and threaten dire political reprisals against those who oppose them, they are up against a well nigh hopeless task if they expect to do away with virtually all legal restrictions on labor's own conduct while forever trying to broaden those on the conduct of employers. If they ever seriously thought this possible, they have underestimated the intelligence of the electorate as well as of Congress. Labor by now must know that what happened last November cannot be viewed as a "mandate" for any specific legislation along the lines of their own thinking.

There is little doubt today that the Taft-Hartley Act is now widely recognized as the first major step forward in labor management relations made by Congress since enactment of the Wagner Act. True, there was room for improvement, and the amendments offered by Senator Taft would make an excellent new labor bill—if there were any chance of their adoption. But there is little chance since Administration supporters, waving the patronage club, will do their best to cripple each amendment. At the same time, the President's uncompromising attitude, easily matching that of labor itself, practically assures that any congressional attempt to retain those features of the Act which under no conditions should be discarded, will meet with opposition.

The present impasse suggests two possible results. Either Congress will adjourn without having touched the Taft-Hartley Act at all, or it will pass over the President's probable veto a patched-up version of that law which may be some improvement but not the kind of legislation that could have emerged after realistic and objective study of the problems and interests involved.

Public and congressional attitudes in the matter have made it amply clear that while there is a general and natural desire to see labor get a fair break, this does not include a sell-out to the unions with the public welfare at stake. Organized labor should at last recognize this, in their own interest. If not, it may well happen that the rank-and-file which has never completely swallowed the "slave

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

labor" line, may soon wake up to the fact that their leaders have done them a great disservice by raising demands that run counter not only to the national interest but to their obligations as citizens. Such an awakening might not be pleasant for labor leaders and labor politicians.

BUDGET JUGGLING . . . The Mills bill for accelerating collection of corporate income taxes is proof that tax juggling to make ends meet is again in the wind, and that the Government is at last beginning to realize that it is headed for financial trouble. The move is a direct outgrowth of congressional reluctance to vote for increased taxes or to cut expenditures as dictated by simple economics. If neither is done, the Treasury faces a deficit variously estimated at between $3 to $5 billion by June 30, 1950, and this would be awkward in a congressional election year.

Actually, of course, such a scheme can merely postpone the day of reckoning, hence the usefulness of such a device, from the standpoint of wise fiscal policy, is hardly worth discussing. Its significance lies in the fact that it is considered at all and receives some cautiously favorable comment in democratic and republican quarters. It is proof of the widespread desire, if not eagerness, to achieve a balanced budget in 1950 by any means but economy.

The idea is to require corporations to pay up in six months after the close of the tax year rather than allow them payment in four quarterly instalments as at present. This would of course swell Federal revenues in fiscal 1950, wiping out the threatened deficit and perhaps even leaving a small cash surplus. The purely political intent is to "window-dress" the budgetary picture for the coming fiscal year and temporarily avoid heavy deficit financing. But only temporarily! For while such glossing over a temporary embarrassment makes the budget look better than it is, it does not do away with the later need to come to grips with a bad situation which the new device is supposed to cloak. As a precedent for meeting emergencies, such a speed-up is certainly to be condemned.

It is understood that even the Treasury is somewhat doubtful about the merits of the scheme. While some corporations have enough surplus cash to meet the accelerated tax payments without difficulty, most of them use tax accumulations in current operations and a great many might be considerably inconvenienced if asked to pay half of their annual tax liability six months before anticipated dates. Moreover, such a speed-up is apt to sharpen the monetary squeeze of the tax payment period. On the present scale, tax collections have a way of causing business tremors on each tax date but particularly in March where there is the heaviest quarterly flow, and this will undoubtedly be intensified under the new scheme, apart from producing a similar dislocation in June. Chances are that many businesses would have to borrow money to meet their obligations.

Representative Mills defends his plan as a "long overdue deform," arguing that since individuals have to pay as they go, corporations should not be allowed to use money due to the Government for months after it is earned. Republican leaders call the whole thing "trick bookkeeping" that would not add one dollar to the Treasury's long-run revenue, and this of course is true.

The pity of it is that so little real desire exists to resort to the one and only effective and at this time desirable way-out of the budget dilemma — Government economy. Reduced spending would certainly be a better solution to budget problems but so far this approach has won few friends. Let's hope that saner counsels will yet prevail.

BOTH WIN . . . Recent announcement of terms under which the International Monetary Fund has sanctioned gold sales of South Africa at a higher than statutory price leads one to conclude that here is a nice case of compromise in a delicate and difficult matter. Seemingly there has been no real backing down on the part of the Fund from its gold policy, while the South African Government, after previous statements that it would go ahead as it pleased with gold pricing, won the Fund's permission for continuation of the premium price shipments.

The face-saving terms to which both parties agreed were: (1) The foreign manufacturer seeking to buy semi-processed gold from South Africa for legitimate industrial or artistic uses must submit an affidavit that the metal will be used by him for such manufacture. (2) He also must submit an import license from his government in his name authorizing the shipment for fabrication. (3) The South African government accepts limitation on its freedom of action in an effort to assist the Fund in limiting the scope of such unauthorized gold transactions as may have the effect of undermining monetary stability.

There is some opinion that the Fund's stature has been enhanced by the agreement, particularly by South Africa's official recognition of the Fund's right to limit its freedom of action where such action would affect monetary stability. But there are also those who feel that the agreement constitutes a big step backward from the Fund's original position and perhaps even an indication that the United States may be weakening its policy against any increase in the price of monetary gold. Much will depend on the effectiveness of the control clauses and on the amount of premium gold actually shipped.

Since most nations exercise some import controls, particularly as to gold, and do not like to permit the weakening of their exchange reserves by allowing withdrawal of funds to purchase gold, it is thought that the volume of shipments is not likely to be large. The Fund additionally believes that most industrial gold needs can be met at monetary prices, not at premiums. This may well be so. Still, unless the agreed upon controls are strictly exercised, their circumvention would probably not be too difficult. One cannot escape the conclusion that the plan as originally conceived went beyond satisfaction of industrial gold needs, if only because of the South African Government's former statement that it has no way of fixing safeguards over the use of the exported premium metal.

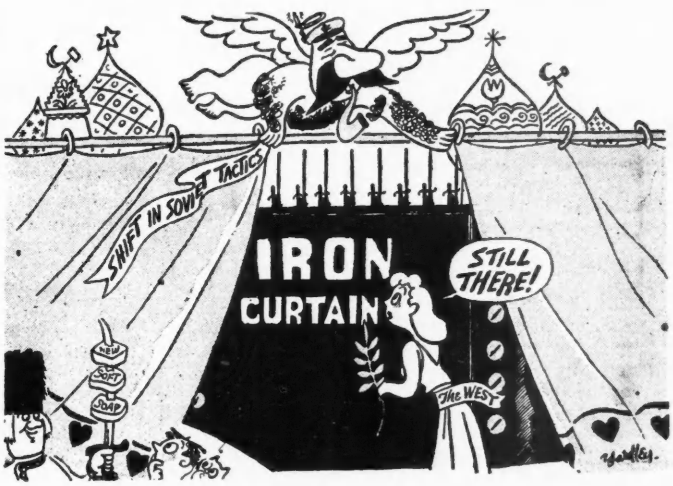
As I See It!

BY ROBERT GUISE

HIGH STAKES AT PARIS

The wide gulf that separates Soviet Russia from the West appears to have grown wider at the very opening sessions of the Four Power Conference in Paris when Russia presented the first outlines of her program in terms which brought quick and emphatic rejection by the western delegates. Possibly these opening moves constitute little more than a jockeying for position, the preliminary sparring customary in the game of high diplomacy, and thus perhaps too much significance should not be read into it. Still the basic differences revealed are so great that it is diffcult to conceive of a satisfactory compromise unless Russia yields radically from her stand and this is more than open to question.

"BEHIND THE SOFT NEW RED VELVET CURTAIN"



Yardley in the Baltimore Sun

As it is, the Soviets wish to turn the clock back to 1945 when they thought themselves so strong that by a policy of rule or ruin they could impose their terms not only on the vanquished enemy but on a weak and divided West. Having failed in this respect, they now propose to go back to the Potsdam Pact and its unsuccessful dream of veto-paralyzed four-power rule of Germany, cancelling every progress made since those days including the creation of a West German republic which is an inseparable part of the economic recovery of all Europe. Clearly the Russians are out to prevent its establishment at all costs.

They would like to go beyond that by demanding a voice in the control of the Ruhr and by tapping Western German production, built up at great expense, for huge reparations without granting the West any voice in their own zone. Here the Iron Curtain would remain. In short, what Russia demands is a return to an impossible and demonstrably unworkable past and as far as the West is concerned, these demands are easily replied to, for it simply cannot afford to accede to them. Russian aims in this respect are quite transparent. Beaten at its game for Europe, the Kremlin is shifting its strategy with a view to be cut in on any German settlement so as to get some of the good things of the West which have been eluding its grasp. It is a game that is bound to reverse the roles which each side was expected to play at the conference.

It is the West that will say no. For the first time, the West is fully united on a common policy and thus able to negotiate on more equal terms. For the first time it is in a position of not feverishly trying appeasement. Thus the western powers have demanded the political unification of Germany as the first condition for economic unification, and they have insisted that any political unification must be based on establishment in the Soviet zone of the same kind of freedom and democratic self-government already established in Western Germany. This will be hard to swallow for the Soviets, but the West would be foolish to agree to anything else, and to submit to a course that would merely tend to subsidize the Soviet Zone and indirectly Russia. The kind of economic unity that the Soviets want aims at just that and more; the kind of political unity they propose is one that would throw a united Germany into their hands.

Considering past experience, it was to be expected that the West approached the Paris conference with deep suspicion. There is some feeling that Russia is eager for a settlement in Europe but the question is — on what terms. Also, Russian diplomatic moves are often devious. It is for this reason that the latest move, coinciding as it does with the decisive communist victory in China, cannot be disassociated from the greater world picture. One cannot rule out the possibility that the Paris conference was sought merely as a diversionary maneuver so as to gain time to complete communist conquest of South East Asia and prepare for the Middle East and India. We note that Mr. Vishinsky is taking his time in laying his cards on the table; possibly prolonged bickering is what he wants.

In the circumstances, our caution and distrust of Russian motives is well justified. So is our avowed determination not to give in to Russia's ideas for a German settlement as presented by Vishinsky. For any yielding on our part (*Please turn to page* 258)

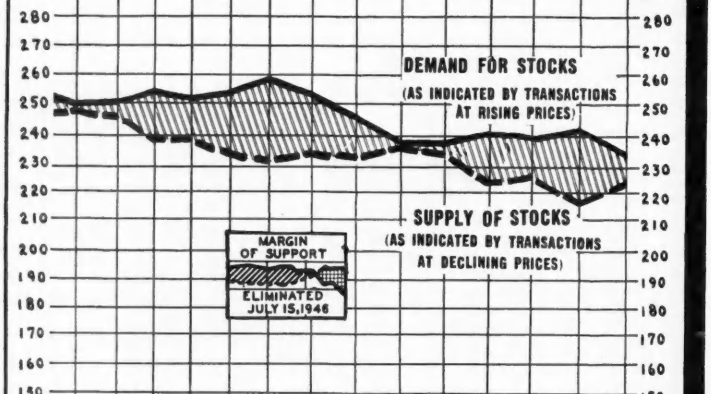
Realities Or Emotions Shaping Stock Prices?

Up to this writing the market has withstood another downside test. We doubt that even a breaking of the February average lows, should it come, would touch off a sustained decline at this season and we continue to allow for some degree of summer rise. There is no change in policy. Well-situated stocks can be held with confidence.

By A. T. MILLER

With selectivity temporarily less pronounced, more individual stocks drifted lower over the past fortnight than advanced. General sentiment was distinctly blue — not for any new reasons, but because item after item of recession news week after week has a wearing effect on nerves, particularly of inexperienced investors and traders, like the constant drip of water erodes a stone. As a result, the market as a whole retreated, by the middle of the final week of May, to within a hair of the previous lowest levels of the year, seen last February.

At that point, however, a momentary stalemate was reached, with the fence-sitters and shorts waiting to see if the February support level would be imminently broken. Since a good many would-be sellers watched, rather than acted, the level was not broken; and some short-covering then promptly developed, lifting the market slightly and leaving the relatively narrow trading range of the past three months intact. As we go to press, it remains to be seen whether a general rally of any significance is in the making or whether there will be some further test on the downside, since the rebound up to the close of trading today appeared more tentative than confident.



Serious Decline Believed Unlikely

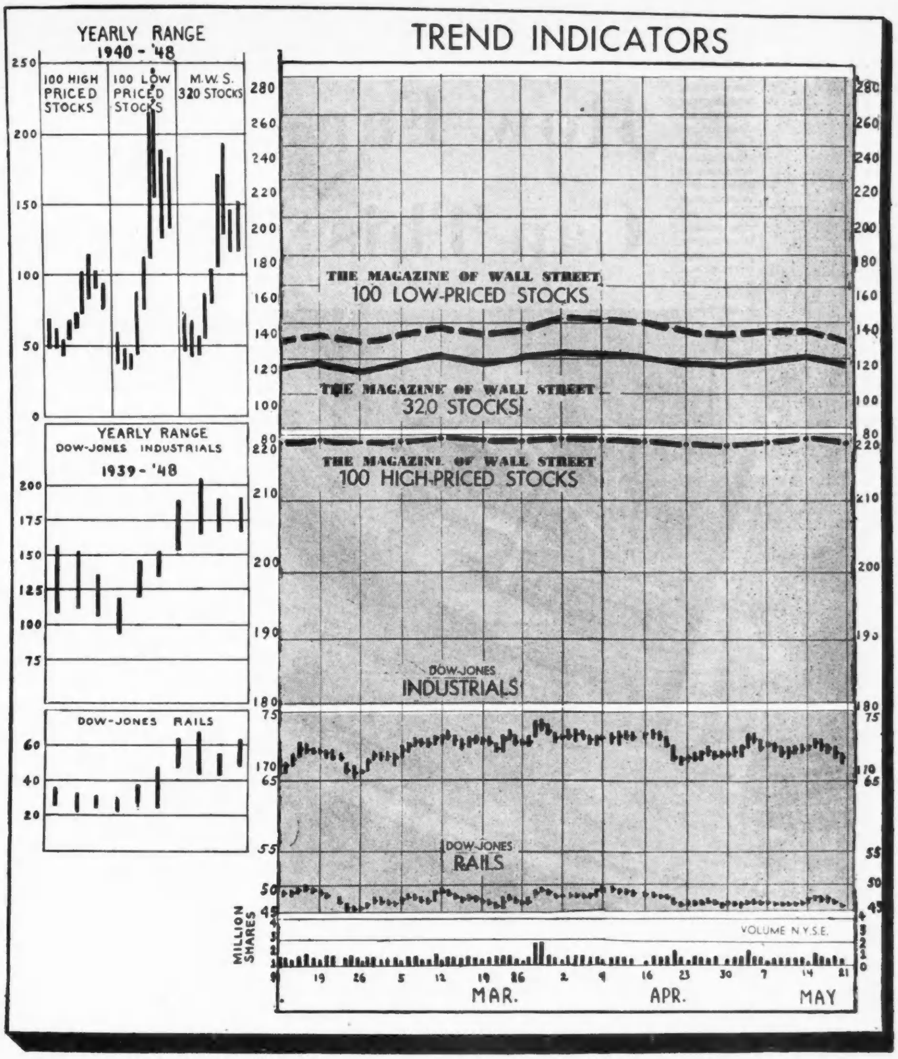
Smart selling is done either before the fact of business deflation is obvious to all or at any event in periods of general market strength, rather than weakness. Broadly speaking, stocks probably have been passing from weak hands into stronger hands for some weeks — especially better-grade stocks in lines where the year's outlook for earnings and dividends is good when considered in relation to prevailing market prices. The "small-fry" public, usually wrong, especially in its judgment of short-term potentials, has been persistently selling on balance. Brokers are getting more requests than in many years for "tips" on stocks to sell short. The fact that the outstanding short position, as reported by the New York Stock Exchange, recently rose to the largest figure in 16 years, is probably due in considerable degree to the belated bearishness of these amateur shorts.

This is not the kind of psychological and technical background in which important declines in the general market usually develop. The visible reasons for bearishness provided by the continuing shrinkage in business activity are too obvious. The gloom is suspiciously deep.

In making these observations we do not rule out the possibility that the February support level might be broken before a seasonal rally develops. There is little basis for a prediction on that, one way or the other. The market is thin. Most of those interested in buying individually attractive stocks are in a mood to buy on concessions, rather than to "reach." Hence, it might not take much more public selling, whether of poor quality or not, to "break" the general list through the February low. Assuming so for the moment, what trend significance

might that have?

We doubt that it would have a great deal. In the first place, the February low is merely an intermediate test point, not a major one in either technical or psychological implications. At intervals only a very short distance apart there are several other intermediate support levels between that and the 1947 low. In the second place, "penetrations" of long watched support or supply levels turn out to be false moves in a good many instances. One of many such examples was seen in the summer of last year when quite a few people took it as a "bull-market signal" when average stock prices cleanly bettered the intermediate-rally highs which had been made on a similar summer upswing in 1947. They were badly fooled.



Without predicting it, we note that something like that would be one of those neat tricks by which the market so often double-crosses both rule-of-thumb technical analysts and investors who think the seemingly obvious thing is the logical thing. In short, on a reaction running into June — which would be no violation of seasonal precedent—stocks would be a better buy for a summer rally, so far as trader-minded people are concerned, than they would otherwise be. There is no change in our previously expressed view that not too much should be expected of a summer rise if it starts from levels about the February low without benefit of surprising new events on the stimulative side.

The Fundamental Factors

We question whether there is much chance that the market will get any strong, fresh impetus, either way, from what comes out of the Paris Foreign Ministers' Conference — results up to this writing being inconclusive but not too promising. Nor is there much chance that Washington developments will change market sentiment materially for the worse or better. The continuing deflation of the postwar boom is the dominating fact commanding all eyes. We view it as a healthy correction, which is proceeding in an adequately orderly fashion yet rapidly enough to make completion of the downtrend within the early months of 1950 quite possible, if not probable.

The rotating nature of readjustment has been reflected in corresponding market action of stock groups and individual stocks and will continue to be so reflected. In other words, just as we are having piecemeal adjustment, we shall also have piecemeal stabilization; the behavior of stock groups and individual stocks points in this direction, and this in turn means continuation of a high degree of selectivity and marked cross currents regardless of the broad movement, or lack of it, expressed by the averages.

On the whole, present stock prices and high dividend yields make a very large allowance for the prospective further contraction in business volume, prices and corporate earnings. The question still to be answered is whether the deflation has been fully discounted at the lowest market level thus far seen: namely that of May, 1947. A conclusive answer to this question might not be had until next autumn. At this distance we are inclined to think that either a maintenance of the previous lows or a rather moderate penetration of them is more likely than a broad new bear-market phase.

The market turned down from its last major high some 28 months ahead of production. The time-span between its low and that in business could also be uncommonly great. We would not be surprised if it is. And deflation in most consumer goods lines will have been completed ahead of that in the heavy industries, making for continuing market selectivity. There is no change in the general investment policy we have been recommending heretofore. —Friday, May 27.

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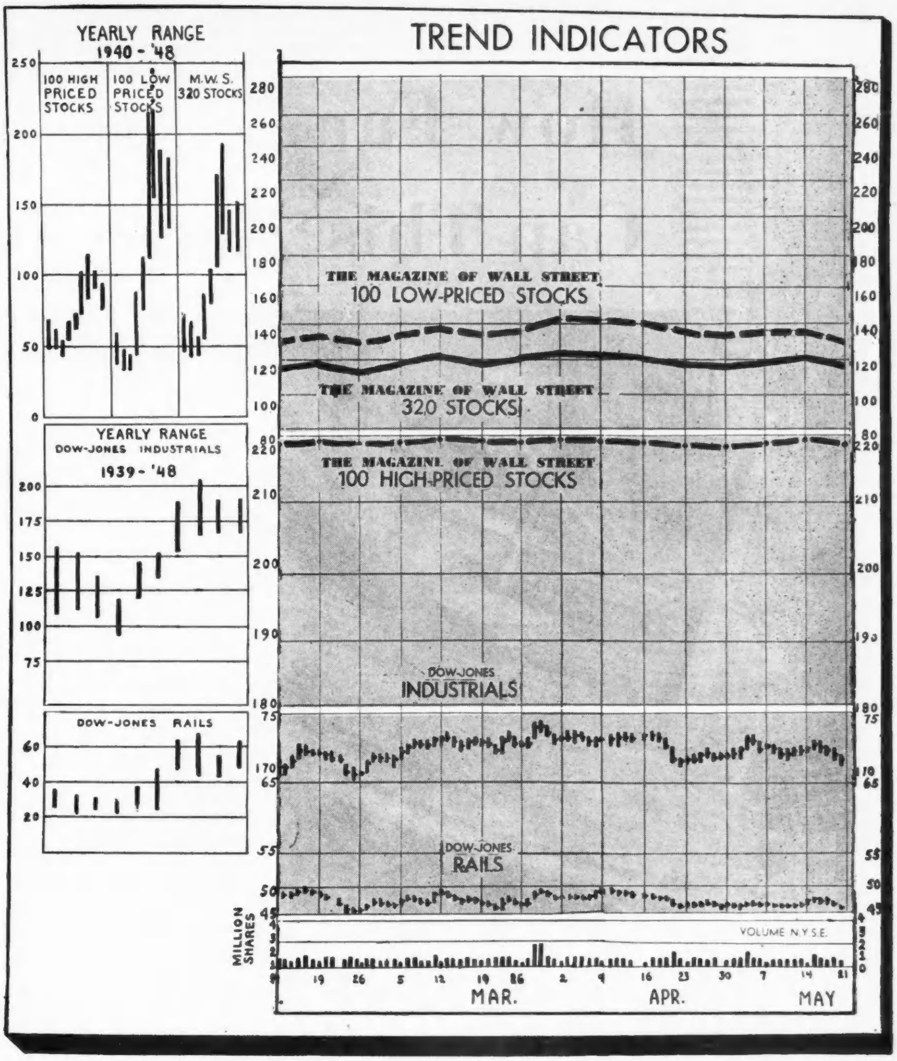

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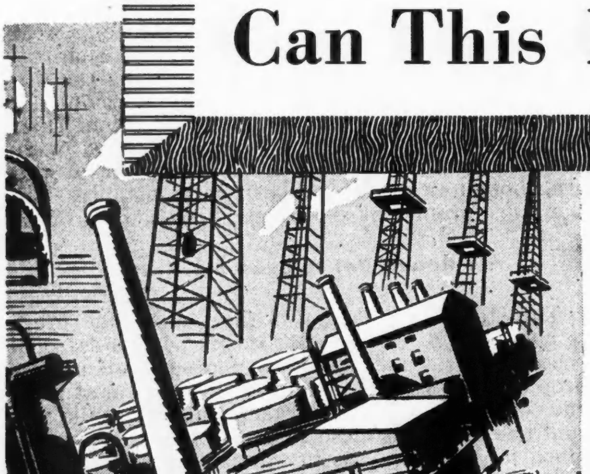
How Far...... Can This Recession Go?



By

E. A. KRAUSS

With signs on every hand of an acceleration of the business decline, most businessmen are no longer satisfied with official assurance that we are merely passing through a period of healthy readjustment and that neither a deep nor a protracted recession is in store. Disinflation, to be sure, is healthy, especially if it doesn't go too far and isn't too rapid. If it goes too far, and too fast, it ceases to be healthy and becomes a matter of serious concern. Today the question: How far can the recession go? has become one of considerable actuality. How far, of course, implies not only the likely depth of the business downturn but also its probable duration. Neither can be estimated with any degree of assurance; yet it is possible to arrive at practical conclusions by examining the factors that are likely to shape the trend of business in the months ahead.

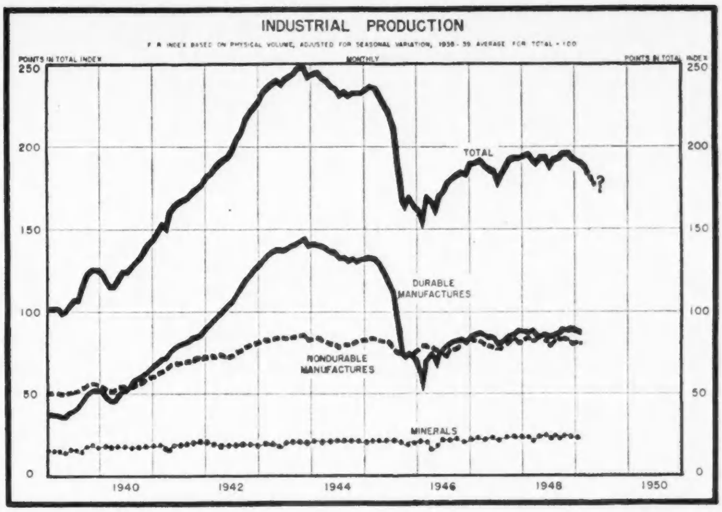
Before attemping this, however, it is necessary first to find out where we stand, then where we are likely to go from here. It is evident that readjustment is far from completed, with the different industries in various stages of the process. For some time, steel, automobiles, capital goods and construction have been supporting the general economy at a fairly high level but a turning point now is at hand in these fields with a significant bearing on the production outlook over the medium term. Steel activity may be down 15% to 25% by the year-end. The auto industry is still operating at accelerated schedules (labor permitting) but the end of the normal selling season is likely to see a decline in demand. Overall construction should hold up relatively well, subject to seasonal patterns that have definitely returned; while residential building runs substantially below last year, heavy construction and public works are providing a material offset.

Broadly, while adjustment and recession so far has been chiefly confined to consumer goods industries, it will soon begin to move over into the capital goods field which in the months ahead will feel the impact of the downturn in varying degree. Backlogs now supporting high-level activity are rapidly being worked off and the rate of new orders will not be heavy enough to maintain production at current levels. The showdown in steel will probably come when the auto industry, after the summer, is forced by slackening demand to adopt a slower pace, on top of progressive demand recession in other capital goods industries.

So far the decline in the latter has been small; but traditionally, once under way, a downturn can assume a fast pace and if so, will naturally tend to pull down overall economic activity a good deal. What are the potentialities?

Industrial activity, as measured by the Federal Reserve Board production index, last March stood at 184% of the 1935-39 average, down eleven points or 6% from the postwar peak of 195% reached in October-November 1948. In the face of falling trade and mounting recession in consumer goods, the drop seemed unnaturally small because the FRB index, heavily weighted by capital goods activity, was effectively held up by heavy output of steel, automobiles and various capital goods—where large backlogs permitted a high rate of operations despite declining new orders. As indicated above, this picture is now changing. Chairman McCabe of the FRB at a recent discussion of the general economic situation before the Senate Banking Committee stated that the production index in April had dropped to 179, down sixteen points or 8.2% from the postwar high. He added as his guess that the figure for May may be anywhere between 175 and

179. Since the month of May has not shown any marked recovery trends, 175 appears the greater possibility and that would mean a drop from the postwar peak of twenty points or 10%.



What About the Future?

This, then, is about where we stand today. What about the outlook for the balance of the year? What about the probable course of further adjustment? The latter in capital goods, having barely begun, is not likely to be really under way until the latter part of the year, hence the belief that the third and fourth quarter will witness a further downturn in business and production. It is a realistic expectation, but also one that must be weighed against the prospect that the decline in durables may at least to some extent be offset by improvement in non-durables after completion of their readjustment phase.

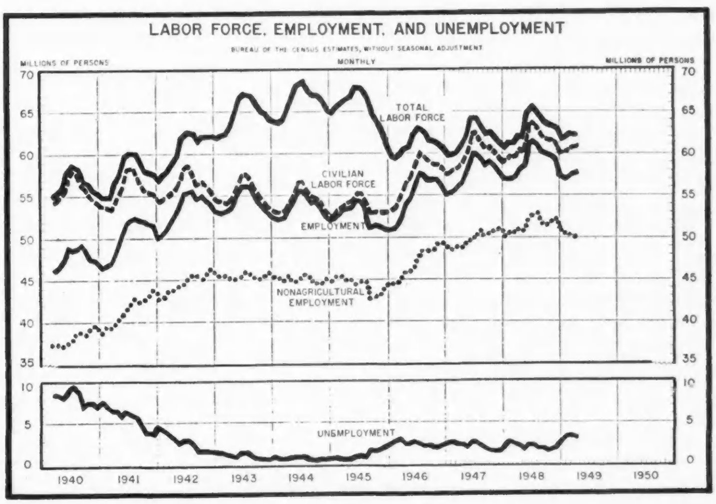
Not only orders for soft goods but in many instances production, too, in recent months has been cut to well below the current level of consumer demand and sooner or later this must be adjusted. If and when that happens, it should instill at least moderately new vigor in the respective lines, providing an offset against drooping tendencies in the capital goods sector. In view of the latter's weight in the FRB production index, it appears quite possible that this indicator later in the year may be found in the 160-170 range, after holding steady or seasonally and temporarily improving somewhat over the current estimated 175 level. An ultimate and temporary low of about 160 seems a real possibility by early next year if tendencies now observed in the capital goods industries continue. But even if 160 is reached, business could actually be better than such a figure would imply, just as business early this year looked and probably was worse than the index seemed to indicate. Due to its construction, the FRB index has the tendency of first slowing then exaggerating cyclical swings.

What would a production index of 160 mean? It would be roughly comparable to the 1941 average, and about 10 points or 6% below the 1946 average. Both were fairly prosperous periods, yet it would mean a drastic come-down from the postwar peak, altogether 35 points or 18%. Even now, production and prices are at their lowest since summer 1947. A further downtrend is bound to mean a new rise in unemployment, perhaps to as high as five million, and there is always the danger that this may bring about a secondary wave of downward adjustments in non-durables. But this danger, in our view, is not acute. More likely the downtrend in heavy industries will be tempered by staggered upturns in industries which have completed readjustment. The net result should be a relatively limited correction, as indicated, with the low point of fairly short duration and without the threat of degeneration into a major depression. An overall decline of this magnitude may appear drastic when measured from the postwar peak. It may nevertheless be termed moderate not only in relation to earlier shakeouts but also because all forms of business activity, even at the low, should maintain major increases over prewar levels.

Downturn Will Be Temporary

Nor should one forget that the indicated downtrend will be temporary, has been long awaited and well prepared for by business. Basic conditions are sufficiently favorable to point to a secondary postwar period of prosperity that should begin some time in 1950. Hence though further accentuation of the business decline must be anticipated in the last half of this year, it will bring us nearer to the point from which recovery can begin.

Not all observers agree with this viewpoint. There are pessimists who contend that there is nothing to stop us from heading straight into a sizable depression. However the cushions that will operate to support the economy and prevent it from declining beyond desirable adjustment into a spiral of severe unemployment and financial loss appear quite strong. These include not only the large accumulation of savings, the absence of excessive debt, of speculative excesses and of monetary strain, but



also unemployment compensation and other income payments which increase automatically as incomes from wages or from farm marketings decline. They also include the growing segment of demand represented by large Government expenditures. All this justifies the hope that adjustments can be worked out and the economy brought into balance at a relatively high rather than a low level.

Price A Key Factor

At this stage, waiting for prices to fall has probably become the most important element in business conditions, and buying caution the major cause of the slide in general business this year. Inventory buying is on a hand-to-mouth basis. Manufacturers want lower prices for supplies; merchants want lower prices for finished goods; consumers want lower prices for almost everything they buy. This waiting game must eventually come to an end. At some time business inventories will be exhausted and must be replenished. In some lines where adjustment is far advanced, such as textiles and apparel, we may even see small trend reversals. Typical of such possibilities is what recently happened in copper; while it may not signal the end of adjustment, it does point to considerable progress towards a stabilized price structure, and once stabilization is reached, production should gain.

One of the supporting factors in the present situation is the strength of consumer demand based on relatively high personal incomes which, though declining, continue above last year's level. During the first quarter of 1949, spending of individuals for consumption dropped $4.4 billion to an annual rate of $176.6 billion although disposable income (after taxes) was off only $1.6 billion to an annual rate of $197.8 billion. Consumer income thus was holding up relatively better than gross national product which dropped $9 billion to an annual rate of $255.9 billion, and personal savings rose $2.4 billion to a $21.2 billion annual rate. The recession, in other words, so far hasn't been affecting consumer spending very much though it has brought about definite shifts in direction. Outlays for food and clothing do not fluctuate greatly but the portion going for durable goods does and latterly this type of spending has lost some of its vigor, chiefly in anticipation of lower prices but also because of fulfillment of urgent deferred demand.

Trade Still High

Nevertheless, retail trade, despite all complaints, is still thriving though its brighter aspects have been obscured by the decline in department store business. Retail sales for the first three months of this year were only 1.8% below 1948. In view of lower prices currently prevailing, physical volume was probably higher than last year. Similarly department store sales, despite lower prices, to date are only 4% below 1948. As long as consumers temporize in regard to major purchases, department stores will be adversely affected since it takes a lot of small soft goods sales to offset a large appliance or furniture transaction. Last year's heavy sales in bulk or hard goods explains this year's decrease. Meanwhile total consumption is anything but alarming and retail business is a good deal better than many hold though not at the prewar ratio to incomes which is not likely to rise until prices level off and attain a semblance of stability.

This is not to say that consumer spending will remain impervious to spreading unemployment; it cannot, despite the partial cushion of unemployment compensation. But in view of the large population increase in recent years, there is a definite limit to which consumer spending can decline, and that limit should lie above prewar levels. The same goes for consumer price resistance; the impression is that the limit there is fairly nearly reached particularly in soft goods where current demand should support output at present reduced levels, if not require a somewhat higher production rate in time.

Nor is the present state of consumer durable goods business indicative of demand potentials. There remains a good deal of latent demand awaiting lower prices and as these materialize, they should provide an effective cushion against any undue drop in production. Moreover, our larger population and the wider use of consumer durables will keep replacement demand at levels substantially above prewar.

Capital Formation — The Great Variable

On the other hand, capital formation is the one great variable in the business picture. In the form of inventory accumulation, it has been in an acute downtrend for some months and won't revive, except sporadically, until a measure of price stabilization has been achieved. Business spending for plant and equipment, though still fairly high, is also in a downtrend that is expected to accelerate during the second half, a trend that forms largely the basis for the anticipated decline in capital goods industries. There has been a rapid falling off for industrial machinery because the bulk of postwar expansion is completed, or has been put off because of high prices or poorer prospects for profits. Generally there is a desire to await economic stabilization to see whether further expenditures are justified by prospective market potentials. Hence a cutback in business spending of some 15% in the last half year is indicated.

Business spending is one of the four big props under prosperity. In turning down at this time, it is following two of the others, consumer spending and net exports, though the latter should now hold close to present levels. That leaves one of the four props still on the upswing: Government spending, which currently accounts for nearly one-fifth of the dollar total of national income. Its prospective further increase, probably coupled with deficit financing, could cancel at least a good part of the drop in other spending. Some of the Government's billions will be channeled into the same lanes as business spending, notably for production equipment under defense planning and the Marshall Plan, and is likely to have some "multiplier effect" on business generally. If substantial enough, it could presumably bring about a turn-around in certain capital goods industries before the general decline has reached bottom.

To sum up, while a further decline in business must be anticipated with signs pointing to a sharper than heretofore experienced drop later this year, there are definite limits to how far it can go, both as to extent and duration, despite the well-known snow-balling characteristics of recessionary trends. Apart from the sustaining factors described in the foregoing, the Government moreover can apply further brakes by resort to (*Please turn to page* 255)

Where do Securities Stand Today?

By STANLEY DEVLIN

Probably few investors are fully aware of the deep cross currents in stock price movements in the last three years, of the real course of the market since 1946 in contrast to the 'Averages' which show a relatively small drop from their 1946 highs. As frequently pointed out in this publication, we have had and still have, more than ever, a market of stocks and the averages do not even begin to show the extent of the bear trend in individual issues that has taken place, nor the rotating nature of market adjustment among various industry groups in line with the rolling economic adjustment in our economy.

Hence only analysis of individual stock prices can tell us where securities stand today. The averages don't tell the story, for they hide more than they reveal. Take the Dow Industrials, for instance, which at their recent low around 171 were a mere 19% off from their 1946 high of 212.5. Behind this narrow decline are hidden movements ranging anywhere from a 42% gain over the 1946 high, as in the case of Barnsdall Oil, to an 87% drop as in the case of U. S. Hoffman Machinery. New highs, though vastly in the minority, contrast with current prices close and even below the 1942 lows.

Some of the developments are fairly easily explained by special circumstances while others are more puzzling. But withal, it is a situation that illustrates the fallacy of buying on averages or of regarding averages as a true mirror of the market. They are not. This deficiency applies even to those comprising a larger number of stocks than the Dow Industrials. The latter, with a limited number of components of essentially prime investment quality, are most unrepresentative. Our own broad average based on 320 stocks currently shows a decline of 38% from the 1946 high; our 100 High High Priced Stock Index is down 32% and our 100 Low Priced Index is off 47%. While far more indicative of the general market because of their broader base, they nevertheless cannot fully reveal the wide range of fluctuations among individual stocks—Averages being what they are.

It has often been said that stock prices are still historically high and this is doubtless true when measured in terms of the Dow Average. When examined individually, however, the picture is different. A glance at the stocks on Table I will find that most of them are selling close to or under their 1942 lows, and the list is by no means all-inclusive. Generally their percentage decline from 1946 highs has been quite substantial, ranging from 29% to 87% with the majority in the upper range. Chances are that the "bear market" in these individual issues, severe as it was, has pretty much run its course, and if so, this holds its own market implications for the future. But doubtless there can be no reliable conclusion without going into the factors responsible for their "shakeout." In most cases, these are not difficult to identify.

Special Situations

U. S. Hoffman Machinery, as already mentioned, dropped 87% from its 1946 high to a recent price of 6, which compares with a 1942 price range of 6¾ to 4½. Undoubtedly the 1946 high was an exaggerated evaluation of the company's prospects, in the first place. What pulled the stock down was the relatively quick petering out of the company's postwar earnings bonanza; only 89c a share was earned on the common in 1948 and first quarter 1949 showed a deficit for the common and preferred. The unfavorable earnings outlook and dividend restrictions under the preferred stock agreement did not permit common dividends last year and what with at least the possibility of accumulation of preferred dividend arrears, it is not surprising that the stock plummeted from its 1948 high of 17¼. At current price of 6 which contrasts with a book value of around $36, the stock has probably discounted most of the adverse factors in the situation, yet the unpromising outlook for common dividends naturally militates against early market enhancement.

American Stove which fell 80% from its 1946 high and is currently selling close to its 1942 low of 7½ is another case where reasons for the price drop are not hard to find though the decline here appears somewhat overdone. As late as last year, the stock

Table I

Cross Currents in Stock Movements —Stocks Selling Near or Under 1942 Lows

	Low 1942	High 1946	Recent Price	% Loss From 1946 High
Air Reduction	$29 1/2	$59 3/4	$23	61%
Allis-Chalmers	22	62 3/4	30	53
Allegheny Ludlum Steel	16	61 1/8	20	70
American Airlines	5	19 1/8	9	53
American Car & Foundry	20	72 3/8	26	64
American Chain & Cable	16	40 7/8	21	48
American Crystal Sugar	14	32 1/2	16	50
American Machine & Foundry	9 1/2	45 1/4	12	73
American Stove	7 1/2	38 7/8	8	80
Armour & Co.	2 3/8	18 1/2	5	73
Baldwin Locomotive	9 3/4	38 7/8	10	74
Bath Iron Works	12 1/8	39 3/4	12	70
Bohn Aluminum & Brass	25	73 1/2	25	66
Bon Ami "A"	72	112	57	49
Bridgeport Brass	7 3/8	20 3/8	7	65
Bullard Co.	16 1/4	46 7/8	14	70
Cerro de Pasco	27	51 1/4	18	65
Climax Molybdenum	32 1/4	44 1/2	14	69
Cluett-Peabody	25 3/8	60 5/8	22	64
Consolidated Copper Mines	4	10 3/4	3	72
Crucible Steel	23 3/4	54 3/8	20	63
Electric Boat	9 3/4	35 3/4	13	64
General Amer. Transp.	35	71 1/2	43	40
General Cigar	16 5/8	40 3/4	19	51
Hayes Industries	5 1/2	20 3/8	7	65
International Nickel	24 1/8	42 7/8	28	35
Lehigh Coal & Navigation	3 3/4	17 1/4	7	60
Libby, McNeill & Libby	4	15 1/8	7	54
Liquid Carbonic	11 3/8	43 1/4	14	68
Mack Trucks	13 3/8	38 3/8	11	71
Martin, Glenn L.	17 1/4	45 1/2	10	78
Penick & Ford	22	41	29	29
Swift International	19 1/4	36 1/4	10	72
Sylvania Electric Products	15 7/8	41	21	49
U. S. Hoffman Machinery	4 1/2	47 3/8	6	87
Willys-Overland	1 3/8	26 3/4	5	81
Dow-Jones Industrials	92.9	212.5	171.0	19%
Magazine of Wall Street 320 Combined Stocks	41.4	191.7	117.5	38
Magazine of Wall Street 100 High Priced Stocks	43.2	112.6	75.72	32
Magazine of Wall Street 100 Low Priced Stocks	31.7	248.0	131.73	47

sold as high as 24½ but earnings subsequently were affected by plant changes, steel shortages and a sharp slump in orders toward the year-end, and the March quarter this year produced a $1.13 deficit per common share. To some extent, the earnings slump was either due to transient or seasonal factors and the second quarter should show definite improvement. Though keener competition is an element to be reckoned with in the future, it would not surprise if the "bear market" in this stock would be largely over though the scope and speed of any future price improvement is of course another matter.

Willys-Overland Motors

Then there is Willys-Overland with current price of 5 substantially above the 1942 low of 1⅜, but the stock dropped 81% from its 1946 peak of 26¾, and last year sold as high as 12. While current operations and earnings appear at satisfactory levels, the price drop in this highly speculative issue seems to discount the possibility of the company's return to a rather marginal position. It is difficult to appraise the potentialities of the company's line of utility vehicles under normal competitive conditions though their immediate postwar acceptance has been quite satisfactory. Moreover, no dividends have been paid on the common and capital needs may delay their initiation indefinitely. In the circumstances, the price action of the stock is not particularly surprising despite the fact that the company position has materially improved over 1942.

The Non-Ferrous Metal Group

We have discussed these few cases in some detail not only because of the sharp percentage declines from 1946 highs but to illustrate that such drastic drops are usually motivated by special factors. This will be found so in the majority of instances listed on Table I but there are exceptions. Take International Nickel, at 28 recently selling close to the 1942 low of 24⅛ and down 35% from the 1946 high of 42⅞. There is no question about the intrinsic strength of this concern and the favorable long term outlook for increasing use of Nickel though increasing production from other mines suggests growing competition. But the company is also an important producer of copper, and while nickel has been holding steady pricewise, copper prices have fallen sharply. Since income from copper mining is an important revenue factor, this is bound to affect earnings, hence the moderately declining price trend so far this year. The 1949 high was 31¼ and the 1948 top was 34⅛, comparing with a 1942 high of 30⅞. In this case, while the current price may be close to the 1942 range, that range was already relatively high, at any rate relatively higher than the general market, because of the aspects of war-stimulated demand for non-ferrous metals then already prevailing for some time. Thus the approach of nickel's price to the 1942 low has a somewhat different meaning than in other cases, and the 35% drop from the 1946 peak is about in line with average market performance.

Coppers Down on Price Uncertainty

The same cannot be said of some other metal companies listed in Table I. We find Cerro de Pasco at 18 selling substantially below the 1942 low of 27, and down 65% from its 1946 high. The stock, like most non-ferrous metal stocks, is not only under the cloud of the cyclical price downtrend which got so suddenly under way a few months ago, but also faces problems of reduced copper reserves, high taxes, exchange curbs, etc. The stock has been selling under its 1942 low for quite some time, and even the 1948 high of 28½ was only a point or so above it; but here again, the 1942 low was relatively higher than the general market.

Similarly, Consolidated Copper Mines at 3 is selling a point under the 1942 low, and 72% below the 1946 high of 10¾. The 1942 range was 7⅜ to 4, the 1949 range to date 4⅜ to 2¾. The discrepancy between the two is explained by the fact that back in 1942 the company faced a period of sustained earnings due to urgent war demand for copper and substantial subsidies. Today it faces a cyclical price downtrend that will inevitably return this miner of low grade copper ore to a marginal position. Cases like this are typical examples of how individual stock movements run counter to the averages.

Climax Molybdenum at its 1942 low was over twice as high as the current price of 14, which is off 69% from the 1946 high of 44½. Obviously in 1942 the company faced a period of heavy and prolonged

war demand whereas today the trend is towards declining industrial requirements for steel alloys in which molybdenum is used, and considerable competion with other alloy metals. These latter factors also largely explain why Crucible Steel sells almost 4 points under the 1942 low; alloy and tool steels are in declining demand and the inflexibility of heavy overhead imparts considerable leverage to the stock.

Hard to Explain

In view of the good protection for the $4 dividend, it is difficult, on the other hand, to find a ready explanation why Bon Ami "A" at 57 should sell so much below the 1942 low of 72, and down 49% from the 1946 high of 112. As it is, the stock today yields around 7% while at the 1942 low it sold on a 5½% basis. Perhaps the reasons are merely the present-day ideas about yield, that is the market's unwillingness to discount adequately earnings and dividends. If so, the stock should have worthwhile appreciation potentials whenever this attitude changes. On basis of the company's record, earnings coverage should be assured and ample.

On Table II we have listed companies whose stocks though mostly substantially above their 1942 lows, have declined in varying degree from their 1946 highs. Again the purpose is to highlight the cross currents that characterize market movements. Measured against the 19% decline from the 1946 high of the Dow Industrials, or the 38% drop of our own broad 320 Stock Average, these diverging individual price movements take on added significance.

In glancing over Table II, we find first of all that a number of stocks, chiefly oil company shares, are still selling *above* their 1946 highs, some substantially so. Barnsdall Oil, as already mentioned, shows a 42% gain, Amerada Petroleum is up 12%, Cities Service 14%, Standard Oil of California 9%. Among non-oil issues, we find Dow Chemical higher by 2%, and International Business Machines up 16%. The list of course is not all-inclusive but merely a sample. Doubtless there are other stocks selling above their 1946 highs and this in itself is an interesting fact.

Elsewhere we find varying percentages of decline, frequently readily identifiable by group factors. They are relatively modest among drugs, oils and chemicals (with Heyden Chemical a prominent exception); they are equally moderate among food, finance company and confectionery stocks.

In the medium range we find business machines, steels, farm machinery, soft drinks and automobiles. Heavy percentage declines occurred among building materials and paint company stocks, among meat packers, and non-ferrous metals as already observed.

As a rule, these variations are easily explained. Drugs have most of their readjustment behind them and seem to face a period of steady if not rising earnings. Oils, though in for lower profits, are coming down from an extremely high base and should still do quite well compared with previous years. Chemicals are not expected to suffer too much earnings-wise from readjustment, and they benefit moreover from their growth characteristics that have added so much to investor regard for these stocks. Finance companies face good earnings, and so do food companies which had their readjustment troubles a year ago. Confectionery stocks benefit from lower raw material prices which in the past have squeezed profit margins, and consequently should now do better, or at least well.

With the cyclical peak of the building boom past and the future outlook obscured by high building costs and consumer resistance, building shares had to take it on the chin, and the same goes for paint manufacturers' shares. Stocks of meat packers are down sharply because their earnings are visibly suffering. In steels, the decline from 1946 highs has so far been relatively moderate, if only because these highs never fully or adequately reflected the excellent earnings of the industry during the later stages of the postwar boom. Still steel demand is receding and steel companies will soon be faced with the call for lower prices; in the face of this, market adjustment may not be complete. The same goes for automobiles and farm machinery shares for parallel reasons.

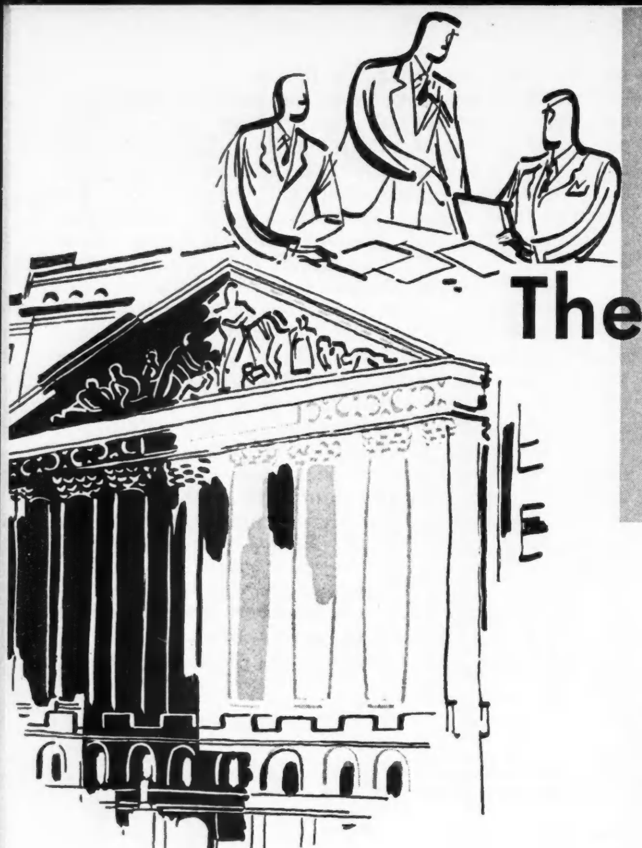
Varying price trends, in short, reflect largely industry factors where no special elements are operative as in most cases listed in Table I. In many lines, stock prices have generously discounted the probable decline in corporate profits (*Please turn to page* 258)

Table II

Cross Currents in Stock Movements —The Varying Degree of Decline from 1946 Highs

	Low 1942	High 1946	Recent Price	% Loss From 1946 High
Abbott Laboratories	$ 9¼	$45½	$40	13%
Addressograph-Multigraph	10	41¾	29	30
Allied Chemical & Dye	118½	212¼	176	17
Amerada Petroleum	21½	91½	102	12a
American Chicle	23	54¾	45	18
American Radiator & S.S.	3¾	23	12	48
Atlantic Refining	14¾	51½	36	30
Barnsdall Oil	8⅜	31	44	42a
Beech-Nut Packing	18¼	40⅝	35	14
Burroughs Adding Machine	6¼	21¾	14	35
Bethlehem Steel	16½	38¼	28	26
Best Foods	4½	31¾	26	18
Case, J. I.	9¾	50	34	32
Celotex	6⅛	38⅛	19	50
Certain-teed Products	1¾	25⅞	11	59
C.I.T. Financial	20¼	58¼	50	14
Cities Service	2⅛	41⅞	48	14a
Coca-Cola	56½	200	132	34
Commercial Credit	16⅛	59¾	51	14
Chrysler	21⅞	70½	53	25
Devoe & Raynolds "A"	5⅝	39½	19	53
Dow Chemical	23¾	48	49	2a
Du Pont	102½	227	190	16
General Motors	30	80⅜	58	28
Heyden Chemical	6½	45¼	17	62
International Bus. Machines	50¼	142⅞	164	16a
International Harvester	13⅜	34	25	26
Johns-Manville	16⅞	55⅞	34	39
Merck	11¾	38½	29	25
National Cash Register	11	45½	31	32
National Steel	43¾	101½	77	24
Phillips Petroleum	30	73¼	60	18
Pittsburgh Plate Glass	13⅞	42⅞	31	28
Shell Union Oil	10⅛	43¾	35	20
Standard Oil of California	18	59½	65	9a
U. S. Steel	14¾	32½	23	29
Youngstown Sheet & Tube	28¼	83⅞	64	23
Dow-Jones Industrials	92.9	212.5	171.0	19%
Magazine of Wall Street 320 Combined Sotcks	41.4	191.7	117.5	38
Magazine of Wall Street 100 High Priced Stocks	43.2	112.6	75.7	32
Magazine of Wall Street 10 Low Priced Stocks	31.7	248.0	131.7	47

a—represents gain



What is Behind..... The BOND Market Today

By J. S. WILLIAMS

A number of significant developments have contributed to strengthen bond prices in recent weeks, a trend predicted in our columns earlier this year. While Government policies are as always paramount in influencing money rates, economic forces asserting themselves since the beginning of 1949 have in turn been responsible for Federal decisions. In combination, these two elements continue to enhance buying pressure for desirable fixed yield issues and as the supply is relatively limited, their prices have advanced.

The rather sudden and general slow-down in business activities during recent months has not only stimulated the repayment of business loans and thus reduced the earning assets of banks, but has also served to intensify search by private investors for bonds until present uncertainties are clarified. At such times, safe income from Government issues or sound corporate liens often looks better than idle cash or reliance on the vagaries of dividends. The large institutional investors, more importantly, turn in the same direction to keep their funds employed, for with demand for short term loans diminishing and cash piling up, their income problems are intensified and competition sets in to acquire the best yields consistent with safety and regulations. In a nut shell, this has been the prime reason for gradually firming bond prices and growing evidence that foreshadows a continuation of the trend, unless the Treasury or the Federal Reserve take steps to check the rise.

In sharp contrast to last years' concern by the Government over inflationary trends and the dumping of huge amounts of Government bonds by insurance companies and other institutional investors to invest the proceeds in higher-rate business loans, how to check deflationary forces has now become the dominant theme. In line with these considerations, the Federal Reserve Board's action in April reducing reserve requirements of the banks injected \$1.2 billion of formerly idle cash into the investment stream. At a time when loan demand was shrinking fast, this substantially increased the amount of funds available for bond investments, with consequent influence on market prices. It is also quite possible that by the middle of June, the FRB may completely restore bank reserves to their normal status, releasing an additional \$800 million of investible funds. An equal potential is that Congress may refuse to extend the authority of the Federal Reserve Board to continue the present bank reserve ceiling beyond June 30, thereby accomplishing the same result.

Thus far the increased availability of lending funds has done little to stimulate loan demand because of the widespread urge to reduce inventories by manufacturers and distributors in the readjustment period. Liquidation of inventories has not only lessened the need for bank accommodations but has reduced business borrowings by an aggregate of more than \$1.5 billion since the start of 1949. The weekly decline has been continuous for months. The accumulation of investible funds has intensified bidding for Government bonds to an extent that prices have risen steadily, despite unloading of some \$2 billion issues by the Federal Reserve since November, representing a portion of bonds acquired through price pegging policies earlier last year. For a full six months now, the laws of supply and demand have rendered price-pegging unnecessary and it looks as if before long the policy will become entirely outdated.

Recent Treasury Decisions

The recent announcement by the Treasury that it would refund \$1,014,018,900 of maturing 2% bonds with one year certificates carrying no more than $1\frac{1}{4}\%$ caught the banks unaware, for the expectation had been that a new five year note bearing perhaps $1\frac{5}{8}\%$ interest would be offered. But refunding by one year $1\frac{1}{4}$s of an additional \$4.3 billion $1\frac{1}{8}\%$ certificates due in June suggests that Wash-

ington is awaiting an easier money market before offering higher rate issues with longer maturities to replace its present large volume of outstanding one year issues. Rumors have even circulated that the market is being groomed to facilitate some possible deficit financing next fall, and that the Treasury is saving its ammunition by deferring offerings of more extended term issues until demand builds up still more impressively. In this they may be cagey, for rising prices of Government issues are reducing yields, and this trend is slowly but surely spreading to both high grade and secondary corporates.

Other Factors Making for Firmness

What imparts further strength to the bond market is the prospect that smaller rather than larger amounts of new industrial bonds will appear on the market henceforth. Regardless of the promising outlook for lower interest rates, many managements have either completed their postwar expansion and modernization programs or are temporarily deferring their plans in anticipation of lower construction costs. The $14.4 billion of new money issues sold in the last three years probably represent a peak that will stand for some time to come. Estimates of reduced business spending in the current year range from 5% up to 15%, with prospective conditions in the second half year mainly accountable for the decline. At best the supply of attractive new issues placed on the market is bound to shrink, despite variance in market conditions and even if full confidence is restored throughout the economy, equity financing rather than debt incurrence will be encouraged wherever possible.

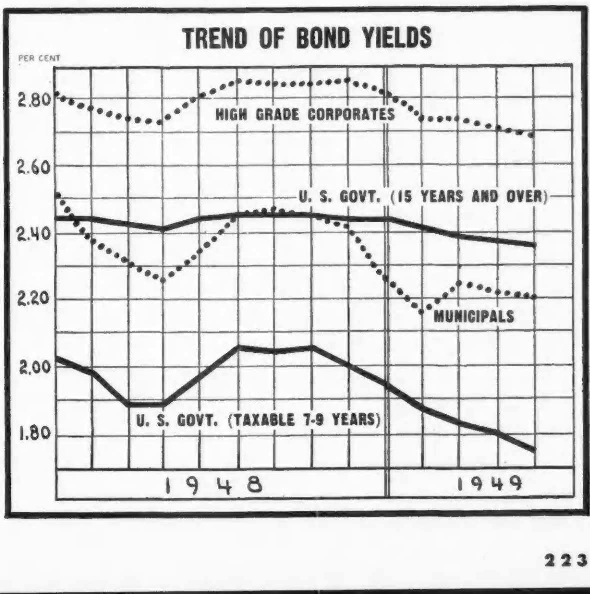
Meanwhile, with the demand for mortgage loans tending to diminish because of high building costs and the increasing satisfaction of housing needs, the accumulation of investment funds derived from personal savings is mounting steadily, with their profitable employment perforce directed towards legal bonds. Disregarding time deposits of the commercial banks, mutual savings banks, insurance companies and savings and loan associations have some $76 billion of savings accounts or their equivalent compared with only $39.5 billion in 1940. The expansion in life insurance contracts alone is at the rate of $3.5 billion per year, much of which must be invested in sound bonds in the absence or due to scarcity of other allowable media. In the last few years, the insurance companies have been able to fill the gap with huge issues of newly issued corporate bonds but open market selection from now on will be increasingly needed to keep their funds profitably employed as industrial borrowing seeks a lower level. Here we find more evidence that portends upward pressure on existing bond prices.

The Federal Reserve System's chief objective in maintaining an orderly and stable market for government securities at all times hinges importantly on retaining a yield of 2½% on longer term bonds. From this angle, the FRB is as anxious to avoid a too rapid rise in bond prices as it was last year in supporting them. Under current conditions the System is thought to hold several more billions of governments that may be sold to banks in order to relieve upward pricing of open market purchases. At least this is one method by which the current trend may be checked for a while. Another suggestion has been that the banks may be permitted to buy Series F and G savings bonds that until now have been ineligible. Such a move would help to ease the general price trend. And again there is a possibility that if easier money markets are ahead, the Government may be able to refund substantial quantities of one year notes at a lower rate than the present 1%, thus providing leeway for an offering of 4 or 5 year issues with a satisfactory yield, yet without upsetting basic interest policies.

All said, it seems clear that since the first of the year those responsible for monetary controls have been pushing through somewhat of a test period and that uncertainties over the near term course of bond prices will persist until a more definite pattern of government financing comes to light. Whether or not Congress will extend the present powers of the Federal Reserve past June 30 could broadly affect the picture one way or another. Additionally, the Treasury has a complicated problem on its hands in handling the huge Federal debt, with its delicate balance of short and longer term maturities, the job of encouraging further sales of E bonds and maintaining stable bond prices. Thus while natural factors point to stronger bond prices, artificial measures may come into play that could change the picture somewhat.

Rising Yield of Municipals

For several years, the yield on tax exempt state and municipal bonds has been slowly rising, with the Daily Bond Buyer's yield index recently reaching 2.16% and with New York State 2½s currently providing an income return of 2.19% The average municipal bond yield is closer to 2.35%. At present the supply of these tax exempts is in excess of immediate demand with an estimated unsold inventory of around $175.5 million in dealers' hands last week. What's more, some very sizable new issues will be coming on the market soon, partly as a result of expansion in public works programs and in part representing veteran bonus issues. Aside from Government issues, no other fixed return obligations have such an excellent record for prompt pay as municipals, and their tax exempt feature makes them doubtly attractive to investors in the high income brackets as well as to investors of all types seeking near-riskless (*Please turn to page* 250)



Happening in Washington

NO NEW LABOR LAW THIS YEAR?

By E. K. T.

LIKELIHOOD of any new labor legislation by congress this year is fading as time marches on. Unions are giving ground rapidly in their contest of the Taft-Hartley Act in the hope of a face-saving bill, but President Truman's insistence that the T-H law go off the books, backed by his veto weapon, is causing general bewilderment. One of the anomalies in the situation is that the White House, which has effectively used existing power to enjoin strikes which would invite national emergency, is opposed to continuing that authority. But house and senate democrats want it perpetuated.

OPPOSITION to the administration normally is considered to be the party carrying the minority label on Capitol Hill, but any examination of recent debates and votes shows that description is not apt today. Actually the opposition now is the majority of the membership. It starts with the GOP numerical strength, closely matching the members wearing the democratic tag, and it picks up the Dixiecrat strength. But that isn't all: the Truman Plan is opposed in its essentials by a sufficient number of democrats, otherwise regulars, to constitute control.

AUTHORITY granted to the NLRB general counsel under the Labor Relations Act has been drastically thinned by a Board ruling which brings to a head a long-standing quarrel in that agency. The general counsel has sole authority to institute proceedings and he has contended that when he rules on jurisdiction the Board is bound by it. NLRB concedes him the right to proceed, now says it will decide whether to take jurisdiction when a case reaches the Board. Some measure of relief to employers should result.

HOPEFUL reports that organized labor might soft-pedal Fourth Round pay increase demands don't look promising today. The CIO has assigned its economists and statisticians to the job of finding data to back new demands and they have come up with the generalization that "production and employment are now being cut back because the American people do not have sufficient income to buy at prices which industry insists on charging." Without allocation to specific industries, the labor union has set 3 billion dollars as the overall payroll boost this year.

WASHINGTON SEES:

Every present indication in the Capital points to lapse of the Federal Reserve Board's bank and consumer controls June 30. Administration supporters are saying publicly no other course is open; they can't, they protest, justify legislation to continue controls in the face of deflationary conditions. The necessary bills aren't on any "must" list—in fact they aren't even on the President's oft-reiterated schedules of essential measures.

The democrat-controlled senate finance committee has held hearings on the subject. It hasn't filed a report; its chairman says he doesn't plan to carry the subject farther unless the economic situation shifts abruptly. The house banking and currency committee, says its chairman, won't make a move until it hears from the other side of the Capitol. Both committees report there has been no substantial demand by either financial houses or consumers for extended controls.

Congress has approved three of the President's inflation control program, covering export allocations, and dwelling rentals. There is no important agitation for price controls, and with bank and consumer credit regulations headed for the pigeonhole it appears that the anti-inflation code is written insofar as it will be drafted at this session.

As We Go To Press

Strategy of the Administration as the congressional session wanes may be to concentrate on broadening the base of social security act coverage and increase the amount of benefits. Idea behind that is to bring home to the greatest possible number of voters the feeling that the session has "done something" -- in a material way.

Costs continue to be the big barrier. This, despite the fact that there is no agreement as to the aggregate. If the health insurance bill is counted "in" (there is no valid reason why it should be), the Truman plan would tap payrolls something like this: temporary disability payments, 1 per cent; permanent disability insurance, 3 per cent; unemployment compensation under a state system, 2 per cent; national health insurance, 5 per cent; proposed features for Old Age and Survivors Insurance, 6 per cent. If welfare and relief programs are regarded in the same category, that's 3 per cent more. Total, 20 per cent.

Even if the reckoning of the Commissioner of Social Security, Arthur J. Altmeyer, is accepted the results are not greatly different. "I will guarantee," he says, "to provide all these benefits of OASI, unemployment, temporary disability, and the costs of adequate medical care at not to exceed 12 to 15 per cent of the payroll. The government would provide one-third, the employer one-third. In other words, the cost to the worker would be five per cent." But who pays the government's one-third?

Social Security Board collections thus far have approximated 29 billion dollars, and SSB says the fund is liquid and available to pay benefits. Today, that is. But that agency adds this warning: "It is inevitable even under the present law, that the tax rate must go up at some future date, either by an increase of the payroll taxes or by contributions from the General Fund (Treasury). That carries even Altmeyer's figure close to 20 per cent, means that a worker paid $200 a month would be contributing $40 a month, or accounting for that amount with the aid of his employer and his government.

Administration forces are about to strike back in retaliation for defeat of their pet legislative measures. The lobby investigation which has been slyly mentioned from time to time in the hope that it would be recognized as a threat, no longer will be held back. Rep. Adolph Sabath, rules committee chairman, who has bridled at past delays, has been given the "go ahead" signal. He introduced, simultaneously, a House-Senate bill and a favoring committee report. Both houses "went along."

The preamble is innocuous enough. It recites there has been "much doubt and confusion concerning the application of the law relating to the registration and reporting of lobbyists." All agree on that. Next comes disclosure of the real intent: "There is widespread public belief that lobbying activities are being carried on by persons not making reports thereof." So Sabath intends to "strengthen the democratic processes" by disclosing the names and activities of non-registrants, and their principals.

Republicans intend to broaden the scope of the inquiry when it gets underway. Through the 80th session of congress they had a special committee gathering data on the biggest lobby of them all, the federal agencies. What is intended to be a critical examination of the methods of big business, promises to develop into a detailed study of the practices of big government.

Old-line party machines continue to experience bad political weather. Two notable casualties were added to the list within a space of one month. The long reign of Frank Hague has been broken in Jersey City, possibly in the important entire state of New Jersey which he ruled as a czar for three decades. And in New York City, Tammany Hall was roundly trounced by Franklin D. Roosevelt, Jr., who was elected to congress in a campaign reminiscent of the one which gave his father a political start. FDR, Sr., also rode into office over a politically-disabled Tammany machine.

The Pendergast machine in Missouri, which was knocked out in a two-point attack -- the federal court and the voting booth -- shows no signs of a comeback. The Crump organization in Tennessee was snowed under by the Browning-Kefauver slate last November and the elected governor and senator have been feverishly building upon their victory. Chicago's Kelly-Nash machine was forced to give ground to an independent businessman candidate, who was elected mayor with no strings attached. Of all of them, the Chicago organization seems alone likely to survive.

While once it was said even the son of a poor, obscure citizen may some day be elected to congress, the situation now seems to be revised: even the son of a wealthy, successful man, has the same chance. Rep. John F. Kennedy, son of Joseph P. Kennedy of Boston, is an outstanding member of the house; Senator Russell Long of Louisiana, has followed his father, Huey, in the senate. Now comes FDR, Jr., elected from a district in which he didn't even reside until after he began campaigning!

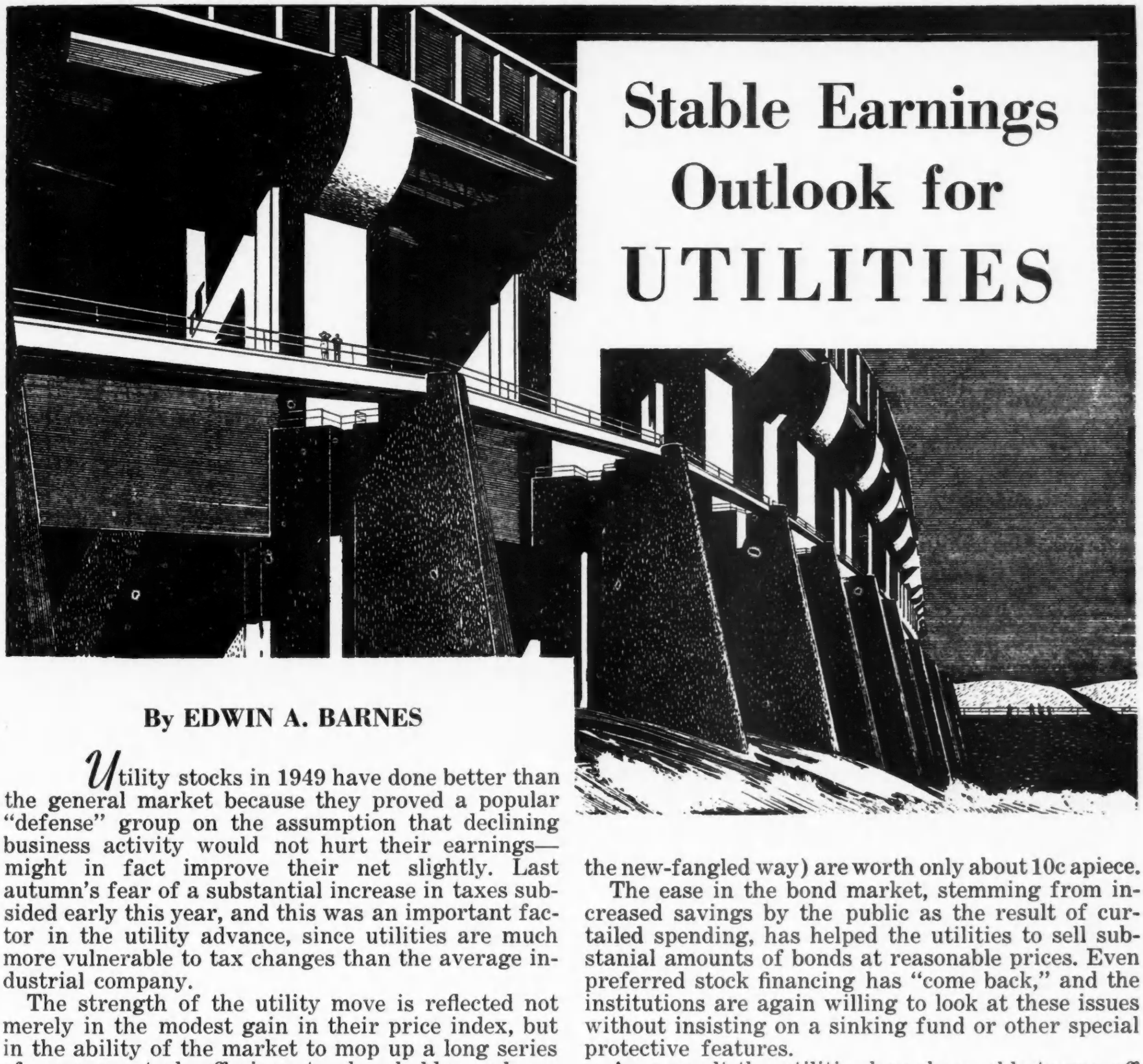
Fear of atomic warfare and the government's efforts to bring about plant dispersal isn't serving to break up the heavy concentrations in existing areas -- in fact new factories are being placed according to the long-time pattern. Society of Industrial Realtors has surveyed the 2,392 industrial plants and additions, exclusive of warehouses, constructed in the three recent post-war years. It was found that 1,270 went into key industrial areas, and 835 of them, or 66 per cent, located in 10 leading manufacturing zones: New York, Philadelphia, Cleveland, Chicago, Milwaukee, St. Louis, Minneapolis, St. Paul, Houston, Los Angeles, and San Francisco. These were the larger plants -- each costing more than $100,000.

Federal economy program has finally become a bi-partisan effort in both houses. First huge appropriations measure to be made a target of the pruning shears so far, Treasury-Post Office was only slightly nicked. But a start was made! Sentiment hasn't yet crystallized on whether to cut all budget-approved requests by five per cent, or set an overall goal of three billion dollars savings and parcel it out. Where objection rises to slashing appropriations, the argument almost invariably is that unemployment would be increased, aid would be reduced. It's the human equation, always hard to overcome.

Reds in the labor movement are standing their ground against the CIO ukase that they must quit the ranks of their own volition or face expulsion at the October convention. That means a knock-down fight, public exposure of some who hold high position while hiding behind a "constitutional right" not to have their "politics" examined into.

CIO President Philip Murray has been working on the purge for months. His staff has been quietly investigating. Their report is said to be torrid. Murray would rather stave off a public demonstration but the commies won't let him.

Demands by CIO leaders, as well as from other sources, that the Federal Bureau of Investigation immediately be called in to help find the would-be assassin of Victor Reuther, suggest that suspicion more than ever points to some radical left-winger as the perpetrator of the crime. Files of the FBI might supply some valuable information on this score, and the entire incident highlights the growing intensity of the labor battle.

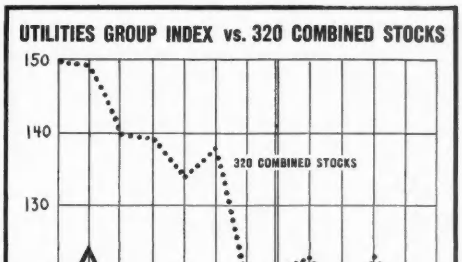


Stable Earnings Outlook for UTILITIES

By EDWIN A. BARNES

Utility stocks in 1949 have done better than the general market because they proved a popular "defense" group on the assumption that declining business activity would not hurt their earnings—might in fact improve their net slightly. Last autumn's fear of a substantial increase in taxes subsided early this year, and this was an important factor in the utility advance, since utilities are much more vulnerable to tax changes than the average industrial company.

The strength of the utility move is reflected not merely in the modest gain in their price index, but in the ability of the market to mop up a long series of common stock offerings to shareholders, plus a few special sales and secondaries. Most of the "rights" offerings have proven successful despite the fact that many of them have been priced very close to the market. The latter offerings have of course been underwritten, and brokers have eased the proceedings by such devices as stabilizing, purchase of rights, "laying off" stock on favorable opportunities, etc. A few utilities, such as Pacific Gas & Electric and Cincinnati Gas & Electric, have followed the old-fashioned method of fixing the subscription price well below the market level, thus affording valuable rights to the stockholders. Thus the Cincinnati rights are currently selling around 3/4 while the Potomac Electric rights (issued in the new-fangled way) are worth only about 10c apiece.



The ease in the bond market, stemming from increased savings by the public as the result of curtailed spending, has helped the utilities to sell substanial amounts of bonds at reasonable prices. Even preferred stock financing has "come back," and the institutions are again willing to look at these issues without insisting on a sinking fund or other special protective features.

As a result the utilities have been able to pay off some of last year's bank borrowing and to go ahead on schedule with their big construction program. At the end of March, total installed capacity of all generating plants was 57,626,926 KW compared with 52,211,488 KW at the end of 1947 (in 1940 capacity approximated 40 million KW). There was an increase of nearly 1,900,000 KW in 1947 and 4,141,000 KW in 1948. The increase in the first quarter of 1949 indicates a probable gain for the current year of about 4,650,000 KW.

Thus the utilities are now getting a steady installation of new and highly efficient generating capacity which permits relegating obsolete plants to the "standby" status which they would normally have—to be used only in emergencies or

1948 Key Statistics and Ratios on

	Boston Edison	Cincinnati Gas & Elec.	Cleveland Elec. Ill.	Common-wealth Edison	Consolidated Edison	Consolidated Gas, Elec. Lt. & Power of Baltimore
PLANT VALUE (MILLIONS) GROSS	$209	$155	$226	$900	$1,317	$207
Depreciation Reserve	59	43	66	239	224	48
Intangibles	......	......	......	......	......	......
Net Plant Account	150	112	160	661	1,093	159
CAPITAL RATIOS—Ratio of Senior Securities to Net Plant	48.5%	54.0%	43.7%	50.0%	40.5%	54.5%
Senior Securities to Total Capitalization	54.0	57.0	51.4	49.0	52.0	53.0
Preferred Stock to Total Capitalization	......	25.0	18.6	......	20.6	17.8
Common Stock to Total Capitalization	46.0	18.0	30.0	51.0	27.4	29.2
ANALYSIS OF REVENUES—Electricity %	95.8%	67.0%	95.0%	89.0%	79.0%	70.0%
Gas %	......	31.2	5.0	10.4	14.6	27.5
Miscellaneous %	4.2	1.8	......	.6	6.4	2.5
INCOME ACCOUNT—Gross Revenues (Millions)	$65	$55	$61	$238	$370	$71
Operating Expenses (including pur. power or gas)	32	31	38	120	179	49
Maintenance	6	3	a	17	37	......
Depreciation	6	3	6	22	32	5
Taxes—Federal Income	4	4	4	17	20	3
Taxes—Other	8	4	5	29	53	6
Net Operating Income (after all taxes)	9	9	9	32	49	9
Fixed Charges, etc. (less misc. income)	2	1	2	9	13	2
Net Income	7	8	8	24	37	7
EXPENSE RATIOS						
Ratio Depreciation to Gross Revenues	9.0%	6.2%	9.2%	9.2%	8.6%	7.3%
Maintenance to Gross Revenues	9.9	6.2	......	7.1	10.0	......
Combined Ratios	18.9	12.4	......	16.3	18.6	......
Operating Ratio (including taxes)	86.0	83.4	85.0	86.0	86.5	88.0
EARNINGS RATIOS						
Ratio Net Operating Income to Net Plant Account	5.9%	8.1%	5.7%	4.9%	4.5%	5.1%
No. of Times Fixed Charges Earned, After Taxes	4.68	7.51	6.17	3.52	3.91	3.85
No. of Times Charges and Preferred Divs. Earned	......	3.98	3.56	......	2.16	2.52
Earned Per Share on Common tock in 1948	$2.90	$3.05	$2.98	$1.76	$2.31	$4.25
SOURCE OF ELECTRIC POWER—% Purchased	6.4%	......	......	......	......	......
SALES OF ELECTRIC POWER ($)—% of Total						
Residential	......	30.5%	......	29.3%	......	......
Commercial	......	14.0	......	56.0	......	......
Industrial	......	42.9	......	b	......	......
Other	......	12.6	......	14.7	......	......
COMMON STOCK						
Recent Price	$42	$30	$41	$27	$23	$66
Indicated Dividend Rate	2.80	1.40	2.20	1.50	1.60	3.60
Dividend Yield	6.7%	4.7%	5.4%	5.6%	7.0%	5.5%
Price-Earnings Ratio	14.5	9.8	13.8	15.3	10.0	15.5

a—Included in operating expenses. b—Included in commercial total.

to help with peak loads around Christmas time. The hydro-electric companies are also benefitting by greatly improved water conditions so that they do not have to use steam power to the same extent as during the recurring droughts of 1947-8.

Lower Fuel Costs

As a result of three favorable factors—more water for hydro stations, use of more efficient generating capacity in steam plants, and the sharp decline in coal and oil prices—fuel costs have dropped sharply. In the month of February this year, fuel expense actually began to show a slight decline from last year, although last June the cost was 45% more than in June 1947. This saving means a great deal to the utilities, since the cost of fuel is nearly equal to the balance earned for common stockholders.

The increase in other expenses has also been moderate this year. Salaries and wages in February (latest month available) were 8.4% over last year and miscellaneous expenses were up 5.4%. But because of the heavy new financing, interest charges gained 17.4%. Taxes were up 11.4%, probably due largely to local assessments on the new plants.

In February, also, the electric utilities had nearly 5% more customers than a year ago, and their KWH sales were up 5.1%, indicating a slightly larger usage by the average customer. Due to some rate adjustments, revenues gained 7.6%; and what with only moderate gains in most expense items, and the gain in income from gas and other miscellaneous services (14%), the utilities were able to show an increase in net income of 10.3%.

The utilities have, of course, felt the general decline in business activity but total KWH output is still running about 3% over last year for the country as a whole. More important than this, residential output, which is the most profitable part of the service, is still forging ahead: March showed a gain of 14.4% as contrasted with a gain of only 1.3% for industrial sales. The residential increase reflects new housing construction plus greater use of television sets and other household appliances.

Important Utility Companies

Delaware Power & Light	Detroit Edison	Illinois Power	Indianapolis Power & Light	Pacific Gas & Elec.	Pacific Lighting	Philadelphia Electric	Public Service Elec. & Gas	Public Service of Indiana	Southern California Edison
$62	$408	$140	$89	$1,122	$297	$535	$533	$134	$484
11	98	16	17	269	107	91	125	17	105
......	7	......	......	......	8	......	......	......	4
51	303	124	72	853	182	444	408	117	375
45.5%	63.0%	57.0%	48.0%	55.0%	45.0%	55.0%	65.0%	61.0%	54.0%
50.0	57.8	61.0	63.0	57.0	49.5	54.0	65.0	61.0	51.0
18.0	......	......	19.8	20.5	25.0	16.0	c	12.8	31.5
32.0	42.2	39.0	17.2	22.5	25.5	30.0	35.0	26.2	17.5
83.0%	96.8%	80.5%	90.0%	66.6%	......	88.0%	72.0%	100.0%	99.0%
16.2	.8	17.8	......	32.5	......	10.7	28.0	......	......
.8	2.4	1.7	10.0	.9	......	1.3	......	......	1.0
$18	$120	$37	$24	$204	$95	$130	$170	$37	$96
10	70	18	10	97	52	60	82	16	35
1	11	2	2	10	7	10	16	2	8
1	8	3	2	23	9	12	12	3	10
2	5	3	2	13	6	13	10	3	5
1	10	3	2	23	8	7	21	3	10
3	15	8	5	38	12	28	27	8	15
1	4	2	1	10	2	8	7	2	6
3	10	6	4	27	9	19	20	7	12
8.0%	6.9%	8.4%	9.2%	10.2%	9.3%	9.3%	7.3%	8.8%	10.6%
6.1	9.1	5.9	7.5	4.9	7.5	7.9	9.6	6.2	8.8
14.1	16.0	14.3	16.7	15.1	16.8	17.2	16.9	15.0	19.4
83.0	87.6	79.0	80.0	81.5	87.6	79.0	86.0	77.0%	84.0%
6.1%	4.9%	6.3%	6.6%	4.4%	6.5%	6.2%	6.7%	7.3%	4.1%
5.29	3.38	4.36	4.04	3.61	3.45	3.47	3.66	4.14	2.98
3.32	......	......	2.76	1.96	2.69	2.54	1.74	3.33	1.56
$1.86	$1.49	$2.93	$3.11	$2.46	$3.96	$1.63	$2.16	$2.67	$2.02
68.0%	......	65.0%	......	6.6%	......	......	......	13.6%	6.1%
35.0%	22.4%	......	31.3%	......	......	25.0%	71.1%	30.7%	29.5%
26.0	20.7	......	27.5	......	......	20.0	15.9	18.6	21.9
26.3	50.3	......	37.5	......	......	40.0	12.2	33.7	19.6
12.7	6.6	......	3.7	......	......	15.0	.8	17.0	29.0
$20	$22	$30	$25	$32	$52	$24	$23	$24	$32
1.20	1.20	2.00	1.60	2.00	3.00	1.20	1.60	1.60	2.00
6.0%	5.5%	6.7%	6.4%	6.3%	5.8%	5.0%	7.0%	6.7%	6.3%
10.8	14.7	10.2	8.0	13.0	13.1	14.7	10.7	9.0	15.9

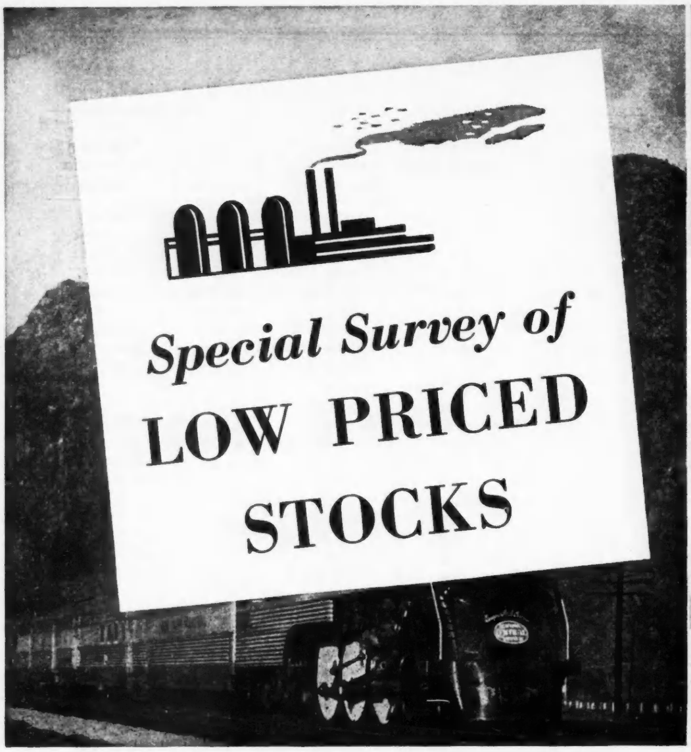
c—Preferred stock combined with common.

Utilities have been generally successful in obtaining rate increases because they have been careful to avoid straight increases in residential rates so far as possible—since these are most likely to arouse political opposition. In the twelve months ended January 31, residential revenues per KWH averaged an even 3c compared with 3.08c in the previous period. A large number of adjustments have been made in industrial rates, many extensions of fuel adjustment clauses have been effected, and credit allowances for prompt payment of bills have been cut. Gas rates have, however, been jumped sharply in many cases, particularly for house heating, and in one area of New York City this has resulted in numerous complaints from customers.

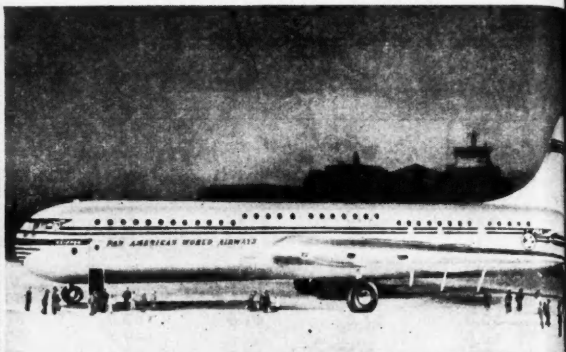
Regulatory Commissions Usually Cooperative

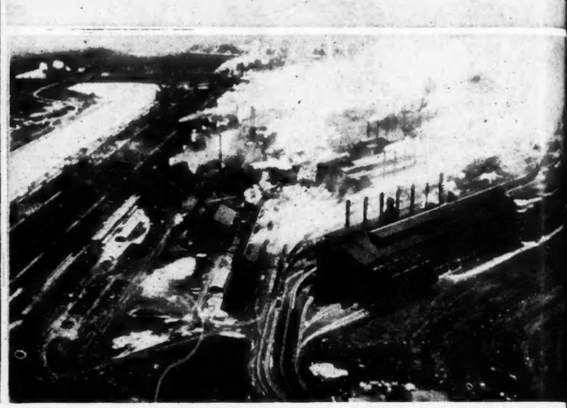
In general the State Commissions have proved cooperative, the major exception being New York, where the recent head of the Commission, Milo Maltbie (now retired after many years' service), was noted for his anti-utility attitude. Consolidated Edison was permitted to increase its gas rates but Mr. Maltbie also ordered a 10% straight reduction in temporary electric rates. This reduction is now being fought by the company in the New York courts.

The election of last fall brought in at least two Governors who have been somewhat anti-utility in their attitude and policy—Governor Mennen Williams of Michigan and Governer Dever of Massachusetts. Governor Williams has been outspoken in condemning the size of increases granted by the Michigan Commission to Detroit Edison and Michigan Consolidated Gas. As a result, perhaps, Consumers Powers obtained only about one-third of the increase asked for gas rates (the company's request for a raise in electric rates is still pending). In Massachusetts Governor Dever has sought to impose a 2% tax on utility revenues, and also to empower a special bureau to counter any moves for rate increases, since he apparently feels that the utility commission is not doing its duty in opposing rate adjustments. However, the Governor's atti- (*Please turn to page* 257)



Special Survey of LOW PRICED STOCKS



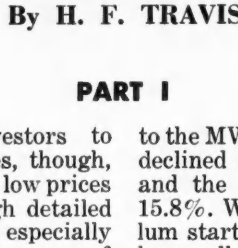


By H. F. TRAVIS

PART I

The general deflation in practically all share prices, especially in the last six months, has enhanced the opportunities of properly informed investors to strengthen their portfolios. At such times, though, stock selection far too often is influenced by low prices that outwardly suggest bargains, although detailed analysis might indicate otherwise. This is especially true under current conditions where the progress of various industrial groups towards readjustment varies broadly, where the status of individual concerns and their respective shares may not be adequately reflected by stock market quotations. Unusual discrimination is needed in the search for sound equities with apparent low price appeal.

Also at this time, when the average price of all listed stocks, regardless of quality, is only around $32 per share, the definition of "low priced" stocks compared with former periods warrants considerable revision. The great wave of stock-splits in postwar has brought into a relatively low price range many of the most desirable investment issues, thus confusing the picture for investors accustomed to regard a low price as a symbol of inferior merit, or on the other hand to consider this element as a speculative advantage, a factor often substantiated. It is true that the volatility of low priced equities frequently is greater than that of higher priced shares, and that more round lots can be purchased with a given amount of funds.



In part because the shares of numerous non-dividend payers, and marginal or weak concerns, are represented in the low price group, despite the inclusion of many excellent issues, it is understandable that since election day their average prices have declined faster than those in other classifications. According to the MWS Stock Indexes, the low-priced stocks have declined about 21%, the high priced group 13.4% and the combined average of 320 common stocks 15.8%. We cite this because when and if the pendulum starts the other way, the low price group could be equally vigorous in the forward direction and some of its soundest components might lead the way.

More important than consideration of low price or generalities is the intrinsic merit of individual shares, but it is equally necessary to weigh a company's current status and future prospects, plus the extent to which these have been discounted by prevailing market quotations. In order to assist our readers in studying these combined factors, we will discuss a number of issues recently selling below 25. Those included were selected on a basis of industrial cross section, with no implication that they represent investment recommendations by us unless expressly so stated.

Shares of Associated Dry Goods Corporation at their recent price of 14 are apparently well deflated. Both the 1947 and 1948 highs were in the neighborhood of 20, while in 1946 the stock sold at a peak of 36¼. A low of around 12 in the 1948-49 period probably marked the bottom of its downtrend, a level at which the stock has consistently met support. True, sales and earnings of this operator of eight large department stores may probably decline in the current year, but not to an extent that should endanger dividends of $1.60 per share annually. The company for more than a year has been alert in keep-

ing its inventories adequately balanced. Good controls are indicated by a 39% increase in net earnings in 1948, despite year-end mark-downs and a volume increase of only about 6½%. The shares at 14, providing a current yield of 11.4%, have liberally discounted the possibility of lower earnings during the balance of the year; even if the dividend was reduced by half, the income return could still be considered satisfactory. The $1.60 dividend was paid in 1947 even when earnings were at a level of $2.97 per share. Measured by prewar prices, of course, the shares at present are hardly bargains, for omission of dividends during most of the 1930s held the price well below current levels. But such a comparison is hardly valid in view of greatly increased working capital, improved facilities and the vast expansion in consumer purchasing power and spending. At the current price of the stock, we consider the downward price risk relatively small and longer range appreciation potentials better than average.

Well Maintained Sales

Well maintained growth by Lerner Stores lends interest to their shares. By concentrating on sales of popular-priced women's apparel distributed through a chain of 197 stores, volume and earnings have increased impressively, the trend continuing even through the recent first quarter in contrast to poorer showings by most retailers. Lerner shares at 23 have exhibited strength in rising from their 1948-1949 low of 16¼, but have far from equalled their 1946 high of 44½ and are still a few points below their peaks in the last two years. As the business of this concern has relative stability, and plans are on foot to enlarge a number of its outlets as well as to establish 36 new units, further growth is indicated. April sales were 45.5% higher than a year earlier, partly due to a later Easter, but on a three months' basis the gain was almost 10%. Net earnings ranging from $3.36 per share to a 1948 peak of $4.83 in the last three years covered the 1948 dividend of $1.50 amply, suggesting dividend stability and possible improvement during 1949. The yield of 6.5% is attractive and the shares appear rather reasonably priced around 23, though declining merchandise prices may restrict the company's volume gains over the near term.

The impact of actual or prospective decline in demand experienced by manufacturers of hard goods has affected low price shares in this category variously. A price of 10 for E. W. Bliss Company, for example, is hardly more than a point below its 1948-1949 low of 8¾, allowing for a 2 for 1 stock-split last August, and represents a drop of about 40% from both the 1947 and 1948 highs. The business of this century-old and leading producer of heavy machinery has been exceptionally good in postwar, but investors are aware that it is very sensitive to cyclical influences. At the beginning of 1949 a satisfactory backlog was reported, but volume started to decline last year and probably will continue to do so. Though 1948 earnings of $3.34 per share were higher than a year earlier, a non-recurring profit mainly accounted for the gain, with operating profits declining about 40% in contrast to a dip of only 18% in sales. This points to a rather high break-even point and rising costs, clouding the outlook for 1949 profit potentials in view of declining new orders generally reported in the capital goods industry. First quarter earnings, as our table shows, dipped to 59 cents a share or an annual rate of $2.36. While, if this should hold, the conservative dividend should not be endangered, this might not be true in the event of a further volume decline. At a price of 10, the shares doubtless have discounted many near term uncertainties, but until the outlook becomes clearer, they hold only moderate attraction in our opinion. The company probably faces further readjustments, and a relatively high yield on this stock is no novelty. It has been evident, though, that market support has appeared around current level.

A Pioneer in the Gas Turbine Field

The recent price of 20 for Elliott Company shares, well above their 1948-1949 low of 15½, reflects confidence in 1949 operations. Though sales of $27.3 million in 1948 were 42% higher than in the previous year, unfilled orders at the year-end amounted to more than $25 million. Sales in the first quarter of 1949 were up substantially and net earnings of $1.99 per share compared with $1.73 a year earlier, in both instances more than covering last year's total dividend of $1.50 a share. The outlook for this well en-

Statistical Data on Selected Low Priced Shares

	High 1946	High 1947	Range 1948-49	Recent Price	Net Per Share 1946	Net Per Share 1947	Net Per Share 1948	1st Quar. 1949	Div. 1948	Div. Yield	Price Earnings Ratio†
Associated Dry Goods	$36¼	$20⅜	$19 -11⅝	$14	$5.07	$2.97	$3.87	......	$1.60	11.4%	3.6
Bliss, E. W.	16⅝	17½	17¼- 8¾	10	1.70	3.11	3.34	$ .59	1.00	10.0	3.0
Burroughs Adding Machine	21¾	16⅝	17¾-12½	14	.40	1.36	2.52 a	.55 a	.75	5.4	5.6
Eastern Air Lines	33½	24¼	20⅝-13⅞	15	1.88	.53	.98	.54	Nil	......	15.3
Elliott Company	39½	24¼	27⅞-15½	20	1.15	3.99	7.14	1.99	1.50	7.5	2.8
Glidden Company	28⅛	26⅛	28 -17⅞	19	2.97	7.00	5.04	.85	1.90	10.0	3.8
Lerner Stores	44½	25	26¼-16¼	23	3.36	3.70	4.83	......	1.50	6.5	4.8
Mullins Mfg.	11⅛	13¾	16⅞- 9½	11	.81	4.22	5.15	.61	.95	8.6	2.1
National Distillers	32⅜	23½	22¼-17½	18	5.01	4.57	3.37	.71	2.00	11.2	5.3
National Supply	25	23⅞	25¼-15⅜	19	1.48	5.47	8.01	2.01	1.25	6.6	2.4
U. S. Freight	29½	20⅝	24¼-15½	16	2.81	5.48	7.11	......	2.00	12.5	2.2
Warren Petroleum	19½	26¼	34¾-15½	16	.93	4.11	5.02	3.71 b	.80	5.0	3.2

Figures adjusted for stock splits.
†—Based on 1948 earnings.
a—Parent company only.
b—Nine months ended March 31.

trenched manufacturer of gas and steam turbines, electric generators and other power plant equipment is enhanced by the large portion of its output that goes to the utilities and manufacturers of diesel equipment, customers that should continue to buy heavily for some time. Since the shares at 20 provide a yield of 7.5% and are considerably down from their 1946 high of 39½, they are not without speculative attraction though the low price-earnings ratio of 2.8 reflects doubt in the permanency of last year's exceptionally high earnings.

Burroughs Adding Machine Co.

A relatively large amount of outstanding shares frequently accounts for low share prices regardless of a company's size or standing. This holds good with Burroughs Adding Machine Company, whose equities in the last three years have moved in a price range of high—21¾, low 12½. Recent price of 14, though, is well below the 1946 top, percentagewise, and 22% under the 1948-1949 peak despite a reported gain in volume and earnings in the first quarter, compared with last year. Though plant improvements have enabled the company to cut sharply into its large accumulated order backlog, demand for cost saving office equipment continues at a high rate and elimination of overtime work is resulting in satisfactory cost controls. It seems improbable, however, that further earnings gains will materialize henceforth, though profits by normal standards may be entirely satisfactory, as has been the case for many years past. A dividend yield of 5.4% attests to high investor regard for Burroughs shares, enhanced by a long dividend record. If general market sentiment should improve, the price should rise moderately, since upside potentials must be viewed as limited. The stock in our opinion has investment attraction rather than speculative appeal.

Mullins Manufacturing

A relatively low recent quotation of 11 for shares of Mullins Manufacturing Company shares is partly attributable to the fact that a stock split in 1948 doubled the number of shares outstanding. But allowing for this, the stock has also declined some 38% from last year's high of 16⅞. On the heels of record sales and earnings in 1948, the company's activities slowed down significantly with the coming of 1949. A slump in the home appliance market caused Mullins to cut production by 50% and first quarter sales declined sharply, while earnings of 61 cents a share were half as large as in the comparable 1948 period. It should be noted, though, that the 25 cents quarterly dividend was earned more than twice despite reduced coverage. More importantly, it is reported that aggressive promotional activities have brought orders warranting a step-up in production to 84%. It seems possible, accordingly, that 1949 earnings of this concern may be better than earlier assumed, though it would be premature to conclude that adjustment in the company's field has run its course. There is always the possibility of a renewed slump in orders after current seasonal improvement. In the circumstances the stock, though well deflated, may not yet be in a buying zone. It must be noted, however, that the company enjoys an excellent competitive position.

A reassuring first quarter report has helped to lift the price of National Supply shares to 19 from an earlier low of 15⅜. Last year, however, a high of 25¼ topped that of 1946. Both volume and net earnings of this concern established record peacetime peaks in 1948, net of $8.01 per share representing an all-time high. This leading supplier of pipe and oil field equipment has benefitted spectacularly through the tremendous expansion program of the oil and natural gas industry, an undertaking far from complete, both at home and abroad. Dollar shortages, though, curtailed exports in 1948, and the management has warned that domestic demand for oil industry supplies should shrink in line with reduced drilling activities. The prediction was made that 1949 sales would not come close to 1948 volume. Sales in the recent March quarter, however, were a third above the same 1948 period, and operating economies derived from a $17 million improvement program pushed quarterly earnings up to $2.01 per share compared with 73 cents a year ago. Thus very conservative dividends of $1.25 paid in 1948 appear amply covered, though the spread may narrow from now on. Signs of increased competition have come to light with a recent reduction in prices for pipe announced by National Supply, but lower materials cost may also have prompted the move. Despite the fact that this concern's earnings have probably passed their postwar peak and that the shrinkage may be progressive, the outlook for operations well above average remains encouraging. At $19 per share, yielding 6.6%, and with a fair chance of ultimately more liberal dividends, these equities seem reasonably priced and are not lacking in appreciation potentials.

U. S. Freight Company

In considering the shares of United States Freight Company, quoted around 16, compared with a 1946 high of 29½ and a 1948-1949 low of 15½, allowance must be made for the special character of its operations. Handling of less than carload lots is its specialty, and the postwar boom brought a rapid increase in volume and earnings, culminating in sales of $74.6 million and net of $7.11 per share in 1948. While the general business slow-down this year may prove an adverse factor, results for the first quarter are not available yet to provide evidence. On the other hand, the widespread tendency of buyers to operate on a hand to mouth basis in uncertain times has formerly stimulated less than carload shipments, and could well be a constructive factor under present conditions. In any event, the regular quarterly dividend of 25 cents per share should be amply protected and there is little to indicate that extras will not continue to be at least as liberal as last year. In other words, a price of 16 seems to have amply discounted a somewhat lower level of earnings.

Speculative enthusiasm in 1948 lifted the price of Warren Petroleum shares sharply to a peak of 34¾, but since then it has declined by degrees to a recent low of 15½, from which level it has recovered only by a fraction. To judge from net earnings of $3.71 per share for nine months ended March 31, results for the current fiscal year will compare well with the $5.02 reported in fiscal 1948. Beyond much doubt the small 20 cents quarterly dividend will be earned around six times. Warren Petroleum specializes in the production of liquified petroleum for home cooking and heating, as well as natural gasoline sold to producers of high octane fuels. The excessive demand for LP, while subject to seasonal influences, seems more likely to expand than to contract, but the big oil concerns currently may be (*Please turn to page* 250)

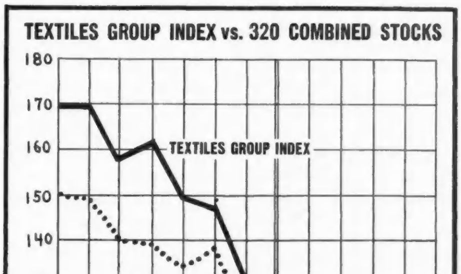
How Much More Shrinkage FOR TEXTILES?

Photo by Celanese

By PHILIP DOBBS

Anxiety over the textile industry's future—founded largely on the adage "What goes up must finally come down" — ignores many elements of strength. It is true, of course, that profits have been abnormally high and that margins most certainly must decline. But doubt over reasonably successful operations is apt to be unduly exaggerated by dogmatic comparison with pre-war standards or by acceptance of the post-war slump tradition. Prospects for stronger and more efficient producers may be better than appears on the surface.

Textile manufacturing is an important element of the economy. It is engaged in satisfying one of the three basic human wants—clothing. It is not surprising then to find that demand for apparel is governed in large measure by family income; in fact, expenditures for wearables average fairly closely 3 to 4 per cent of national disposable income. In appraising the outlook for representatives of this highly essential industry, therefore, it is important to make allowance for the correlation between apparel sales and national income. Here are other significant factors which tend to counteract fears of a return in the near future to overproduction and profitless operations:



(1) Growth in population in this country of about 10 per cent in the last ten or twelve years which implies a corresponding expansion in the market for textile apparel. Potential consumers of textile products probably have increased as rapidly in the rest of the world. (2) Living standards have risen, especially in the United States, as purchasing power has expanded, thereby broadening outlets for products of spindles and looms. (3) World productive capacity has declined. Curtailment of production has been pronounced in Germany and in Japan. Improved efficiency has offset obsolescence to some extent in the United States. (4) A larger proportion of industry has fallen into stronger hands with intensification of integration policies by larger producers. This trend made exceptional headway in recent years as manufacturers ploughed back wartime profits in an effort to prepare for keener price competition after the war. This factor probably has not been fully appreciated, but promises to become increasingly evident.

Before considering these factors in greater detail it may be appropriate to examine the basis for concern over prospects for textile producers. Most companies have been enjoying an unprecedented wave of prosperity, whereas pessimists had feared this group might be the first to experience a slump after

Comprehensive Statistics Analyzing

Figures are in million dollars, except where otherwise stated. CAPITALIZATION:	American Viscose	American Woolen	Sidney Blumenthal	Burlington Mills	Cannon Mills	Celanese Corp.
Long Term Debt, Stated Value	....	....	....	$25.6	....	$86.1
Preferred Stocks, Stated Value	$22.8	$19.5	....	$29.2	....	$55.2
Common Stocks (000 omitted)	2,048	968	359	3,998	2,074	5,514
Total Capitalization	$51.5	$50.0	$4.8	$58.8	$51.8	$143.5
INCOME ACCOUNT, For Fiscal Year Ended	12/31/48	12/31/48	12/31/48	10/2/48	12/31/48	12/31/48
Net Sales	$242.2	$197.8	Not Rep.	$288.2	$156.6	$230.4
Depreciation, Amortization, etc.	$14.2	$1.8	$.2	$3.8	....	$8.5
Taxes	$24.2	$10.0	$.3	$29.2	$18.4	$25.6
Net Available for Interest	....	....	....	....	....	$41.7
Interest (Bonds and Long Term Debt)	....	....	....	....	....	$2.3
Preferred Dividend Requirements	$1.4	$1.1	....	$1.0	....	$3.0
Net Income	$29.1	$16.5	$.5	$31.2	$26.1	$39.5
Operating Margin	29.7%	14.3%	....	24.4%	28.1%	32.5%
Net Profit Margin	12.0%	8.4%	....	10.8%	16.6%	17.1%
Percent Earned on Invested Capital	16.2%	17.9%	5.3%	25.9%	28.5%	16.5%
Number of Times Interest Charges Earned	....	....	....	....	....	$18.27
Earned Per Common Share	$13.65	$15.92	$1.31	$7.53	$12.59	$6.61
Current Price of Common	$50.00	$27.00	$6.00	$14.00	$43.00	$26.00
Dividend	$4.50	$8.00 c	$.60	$2.00	$5.25	$2.20
Dividend Yield	9.0%	29.5%	10.0%	14.2%	12.2%	8.5%
Price-Earnings Ratio	3.7	1.7	4.6	1.9	3.4	3.9
INTERIM REPORTS for 1949	3 mos. Mar. 31	3 mos. Mar. 31	3 mos. Mar. 31	6 mos. April 2		3 mos. Mar. 31
Net Sales	$51.9	$40.8	$3.5	$138.3	N.A.	$47.1
Operating Margin	21.7%	....	....	....	N.A.	....
Net Income	$6.5	$1.5	def. $.4	$10.7	N.A.	$6.0
Net Profit Margin	12.6%	3.7%	....	7.6%	N.A.	12.8%
Earned Per Common Share	$3.06	$1.25	def. $.98	$2.55	N.A.	$.96
BALANCE SHEET, as of	12/31/48	12/31/48	12/31/48	10/2/48	12/31/48	12/31/48
Cash Assets or Equivalent	$76.9	$7.3	$.6	$35.1	$63.5	$43.8
Inventories, Net	$34.7	$59.1	$4.1	$44.6	$20.4	$24.5
Receivables, Net	$18.2	$23.6	$1.2	$36.2	$18.3	$18.6
Current Assets	$129.9	$90.4	$5.9	$117.4	$102.2	$86.9
Current Liabilities	$47.5	$30.5	$1.3	$35.0	$28.3	$16.4
Net Current Assets	$82.4	$59.9	$4.6	$82.4	$73.9	$70.5
Fixed Assets, Net	$94.0	$30.2	$4.1	$52.6	$17.3	$153.0
Total Assets	$226.9	$122.4	$10.2	$176.8	$120.2	$256.6
Book Value Per Share	$75.90	$73.80	$24.83	$21.51	$44.28	$17.36
Net Current Asset Value Per Share (a)	$29.30	$41.80	$13.00	$6.90	$35.50	....
Cash Asset Value Per Share	$37.60	$7.60	$1.75	$8.80	$30.50	$8.00
Current Ratio	2.7	3.0	4.7	3.3	3.6	5.3
Inventories, % of Sales	14.4%	30.0%	....	15.4%	13.0%	10.8%
Inventories, % of Current Assets	26.8%	65.8%	68.5%	38.2%	19.9%	28.3%
Depreciation, % of Gross Fixed Assets	6.4%	3.3%	3.2%	5.3%	....	3.9%

a—After deducting prior obligations. b—Plus stock.

the war. Investors began in 1946 to discount such a setback and, as a matter of fact, orders for cotton goods and woolens dropped sharply in the spring of 1947. Expectation of a readjustment proved premature, however, and leading manufacturers reported record earnings in 1947 and 1948. Now following the belated boom, anxiety over the industry's prospects has revived under evidence of slackening demand.

Remembering the strong influence on clothing purchases of national income, however, one may doubt a sustained serious decline in textiles while purchasing power remains at a reasonably high level. Inventories of manufactured goods in retail channels have kept comparatively low in recognition of consumer resistance to high prices. Consequently, it is doubtful whether substantial quantities of goods are on hand to threaten stability of markets. Meantime, while retailers are holding back their orders, mill operations are likely to be retarded. Even though the slackening in consumer demand should prove temporary, earnings of typical textile manufacturers appear likely to be adversely affected, especially for the current quarter. However, profits could decline substantially and still remain well above the pre-war average. Because of stock splits and other capital adjustments, the extent of postwar earnings growth has been frequently obscured.

It is apparent that with typical companies showing earnings of five to ten times the average for 1939 and 1940—fairly satisfactory pre-war years—there is considerable room for deflation of margins. Viewing past results in this light helps explain the fact that first quarter profits of American Woolen, for example, declined to $1.25 a share from $5.01

Position of Individual Textile Companies

Colonial Mills	Goodall-Sanford	Industrial Rayon	Lowenstein & Sons	Pacific Mills	Pepperell Mfg.	Reeves Bros.	J. P. Stevens	Textron	United Mer.&Mfrs.	Wyandotte Worsted	Duplan Corp.
$1.7	....	....	....	....	....	....	....	....	$10.0	....	$5.7
....	$4.1	....	$7.4	....	....	....	....	$8.9	....	....	....
834	555	1,518	1,027	915	486	1,137	3,460	1,132	3,890	600	869
$17.4	$9.7	$1.6	$8.4	$22.9	$10.0	$.6	$51.9	$9.4	$13.9	$3.0	$7.9
11/30/48	6/30/48	12/31/48	12/31/48	1/1/49	6/30/48	6/30/48	10/31/48	1/1/49	6/30/48	11/30/48	5/31/48
$44.1	$46.1	$55.0	$120.1	$112.7	$78.8	$68.4	$287.2	$98.8	$211.5	$19.0	$35.4
$.7	$.6	$1.5	....	$1.3	$.6	$.5	....	$1.0	$1.6	$.2	$.6
$6.3	$1.3	$8.1	$8.8	$8.5	$5.9	$4.1	$23.1	$4.0	$11.4	$1.2	$2.3
$15.2	....	....	....	....	....	....	....	....	$36.1	....	$5.6
$.06	....	....	....	....	....	....	....	....	$.6	....	$.1
....	$.2	....	$.3	....	....	....	....	$.4	$.1	....	....
$8.8	$2.1	$12.6	$13.9	$10.4	$9.0	$6.4	$32.5	$6.9	$22.0	$1.9	$3.4
39.0%	8.9%	39.1%	18.7%	20.6%	17.2%	17.3%	19.3%	12.0%	16.5%	16.6%	17.4%
19.0%	4.6%	23.0%	11.6%	9.3%	11.4%	9.4%	11.2%	7.0%	10.4%	10.0%	9.6%
35.0%	8.6%	27.5%	27.0%	17.8%	21.9%	25.8%	26.0%	16.4%	27.1%	24.3%	20.8%
25.30	....	....	....	....	....	....	....	....	64.0	....	49.0
$10.50	$3.52	$8.31	$13.24	$11.39	$18.48	$5.64	$9.39	$5.77	$5.64	$3.16	$4.36
$15.00	$15.00	$39.00	$22.00	$30.00	$52.00	$12.00	$26.00	$9.00	$10.00	$8.00	$9.00
$1.25 b	$1.50	$3.00	$3.25	$3.50 b	$7.25	$1.50	$3.25	$.75b	$1.60 b	$1.70	$.50
8.4%	10.0%	7.7%	14.8%	11.7%	14.0%	12.5%	12.5%	8.3%	16.0%	21.2%	5.5%
1.4	4.3	4.7	1.7	2.7	2.8	2.1	2.8	1.6	1.8	2.5	2.1
3 mos. Feb. 38	9 mos. Mar. 31	3 mos. Mar. 31	3 mos. Mar. 31	3 mos. April 2		9 mos. Mar. 31	3 mos. Jan. 29	3 mos. April 2	9 mos. Mar. 31	3 mos. Feb. 28	9 mos. Feb. 28
$8.0	$29.7	$13.2	$28.6	$24.0	N.A.	$45.8	$74.6	$17.7	$196.7	$5.0	$34.6
....	....	....	....	....	N.A.	....	....	....	....	....	....
$.9	$.6	$2.8	$1.3	$1.9	N.A.	$3.8	$7.1	def. $.3	$10.8	$.3	$2.9
11.2%	2.1%	21.0%	4.5%	7.8%	N.A.	8.3%	9.6%	....	5.5%	6.0%	8.5%
$1.08	$.89	$1.74	$1.26	$2.04	N.A.	$3.34	$2.06	def. $.36	$2.51	$.54	$3.39
11/30/48	3/31/49	12/31/48	12/31/48	1/1/49	6/30/48	6/30/48	10/31/48	1/1/49	6/30/48	11/30/48	11/30/48
$6.4	$2.9	$30.1	$5.8	$9.5	$13.8	$5.7	$26.3	$4.5	$12.5	$1.2	$3.5
$5.6	$17.0	$4.8	$20.6	$23.3	$13.3	$9.8	$51.3	$22.5	$36.9	$3.1	$7.3
$3.8	$5.5	$5.1	$11.5	$10.7	$5.2	$.8	$28.9	$5.5	$39.5	$1.5	$3.6
$15.9	$25.5	$39.9	$38.1	$44.9	$32.3	$21.2	$106.4	$34.7	$89.7	$6.1	$14.5
$5.7	$9.5	$12.1	$4.7	$10.0	$9.9	$6.9	$39.6	$11.8	$46.9	$.8	$5.7
$10.2	$16.0	$27.8	$33.4	$34.9	$22.4	$14.3	$68.8	$22.9	$42.8	$5.3	$8.8
$14.6	$8.3	$17.0	$18.4	$27.1	$13.6	$7.9	$55.2	$15.6	$30.4	$2.5	$10.8
$30.8	$34.3	$57.7	$56.9	$72.8	$46.4	$30.2	$164.4	$54.2	$128.3	$8.6	$26.1
$28.09	$37.08	$29.68	$43.03	$68.64	$74.86	$20.43	$36.06	$26.04	$18.20	$13.07	$16.61
$10.20	$28.60	$18.20	$25.30	$38.30	$46.00	$12.60	$19.20	$12.40	$8.50	$8.90	$4.00
$7.70	$5.20	$20.00	$5.70	$10.40	$28.50	$5.00	$7.60	$4.00	$3.20	$2.00	$4.50
2.8	2.7	3.3	8.1	4.5	3.2	3.1	2.7	3.0	1.9	7.9	2.5
12.8%	37.0%	8.7%	17.2%	20.6%	17.0%	14.3%	17.9%	22.7%	17.5%	16.3%	20.7%
35.5%	66.8%	12.0%	54.0%	52.0%	41.4%	46.0%	48.5%	64.8%	41.2%	50.7%	50.7%
3.8%	3.7%	3.2%	....	2.7%	2.7%	3.5%	....	4.6%	3.3%	3.4%	3.8%

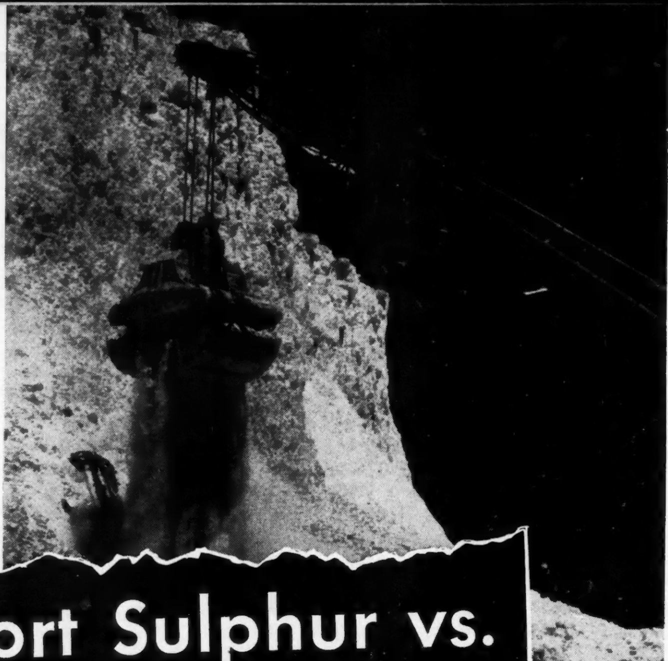
c—Latest dividend reduced to $1 quarterly. N.A.—None available.

in the first three months of 1948. Similarly, it is not difficult to understand how American Viscose and Industrial Rayon experienced reduced profits in the first quarter and are expected to show even less favorable comparisons with 1948 in the current quarterly period. United Merchants & Manufacturers may show less than $3 a share for the fiscal year ending June 30 compared with $5.13 in 1948. This company reported an average of only 44 cents a share for 1939 and 1940, however, so that even at its current lower level this concern still is running far ahead of its record of ten years ago.

Profit margins are highly dependent on steady operations and full utilization of facilities. Reductions in working hours or plant curtailments have a sharply adverse effect, and managements will be on the alert to concentrate output in most efficient plants when shutdowns become imperative. It may be assumed, moreover, that no unneeded stockpiles of finished goods will be accumulated. These are factors that must be taken into consideration in endeavoring to estimate probable duration and effect of the current "disinflation." In this connection, it is interesting to examine several typical companies' profit margins of recent years as compared with experience before the war.

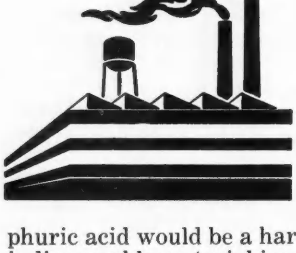
High Postwar Operating Margins

Cannon Mills, for example, showed operating income in 1946 at 28.9 per cent of sales, compared with 10.1 per cent in 1937; Pepperell 16.6 per cent in 1947, against 8.1 in 1937; American Viscose 23.9 per cent in 1947, compared with 27.0 in 1937; Industrial Rayon 39 per cent, against 16.5; American Woolen 21.4 per cent in (*Please turn to page* 251)



Freeport Sulphur vs. Texas Gulf Sulphur

By
H. S. COFFIN



How worldwide development of the chemical age, and in turn the growth of numerous major industries, could have progressed without adequate supplies of sulphuric acid would be a hard question to answer. This indispensable material is more broadly used than any other basic chemical. Yet for decades past, natural sulphur deposits controlled by two important producers have furnished about 200 acid plants in the United States with the bulk of their basic needs, with enough left over to export large additional quantities. Needless to say, these unique advantages have created an enviable record for both Texas Gulf Sulphur and Freeport Sulphur Company.

Together these two concerns produce about 50% of the world's supply of brimstone sulphur, although there are other forms of sulphur to which this would not apply. Producers of sulphuric acid last year derived 12% of their basic needs from pyrites, 7% from smelter fumes and about .6% from hydrogen sulphide gases originating from coke ovens or from natural gas. This, however, left practically 80% of the market for natural sulphur and of 1948 total domestic output, slightly more than half was used for this purpose, with 27% shipped overseas and 19% utilized in other manners. High freight and handling expenses for pyrites place them at a competitive disadvantage, while the same may be said for the use of by-product gases.

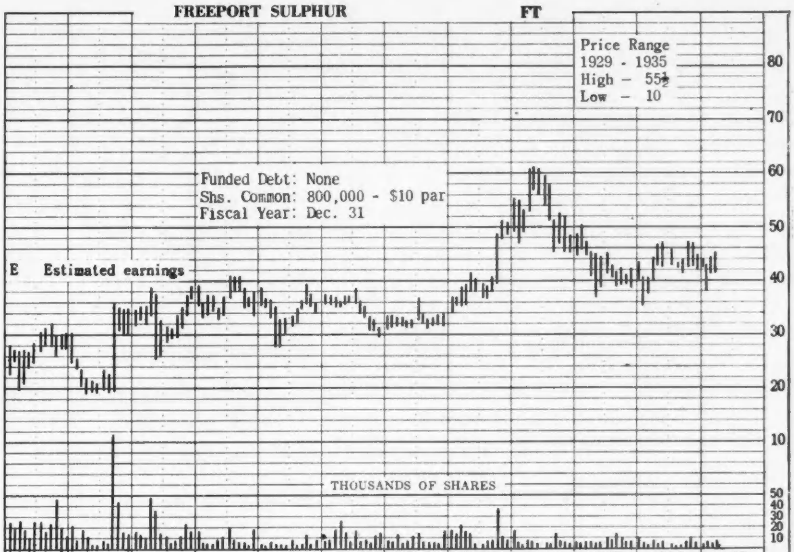
Recovery of natural sulphur from underground deposits, on the other hand, is a rather simple and inexpensive process, but heavy capital outlays are required at the start. The Frasch method of mining is used by both Freeport Sulphur and Texas Gulf Sulphur. By this, hot water is forced into the deposit to melt the sulphur and the material is withdrawn by air pressure into large cooling tanks for eventual slicing into cakes. Thus wage ratios are kept relatively small though the equipment is costly. Known deposits of natural sulphur are quite limited, mainly restricted to a few spots in Texas and Louisiana where the big oil companies have discovered them in connection with oil exploration activities. Holdings of both the sulphur producers under discussion in part represent perpetual subleases obtained from half a dozen or more major oil firms, under terms often involving profit sharing or per ton royalties. Proven domestic reserves of brimstone sulphur, despite substantial depletion for years, are believed to be equal to perhaps 25 years' production at last year's rate, but new deposits are infrequently discovered.

Comparative Statistical Summary

	Freeport Sulphur	Texas Gulf Sulphur
CAPITALIZATION: As of	12/31/48	12/31/48
Common Stock (number of shares)	800,000	3,340,000
INCOME ACCOUNT:	12/31/48	12/31/48
Net Sales (000 omitted)	$23,366	$61,783
Net Sales Per Share	$29.00	$18.40
Operating Margin	24.3%	55.7%
Pre-Tax Net Income (000 omitted) a	$ 5,695	$34,481
Pre-Tax Net Margin	24.4%	56.3%
Net Income (000 omitted)	$ 4,338	$24,231
Net Profit Margin	18.6%	39.4%
Net Per Share	$ 5.42	$ 7.25
EARNINGS RECORD (Net Per Share):		
1st Quarter 1949	$ 1.55	$ 1.90c
1948 (Full Year)	5.42	7.25c
10-Year Average Earnings, 1939-48	$ 3.75	$ 3.36
1948 Dividend	$ 2.26½	$ 5.00
10-Year Average Dividend, 1939-48	$ 2.12	$ 2.90
BALANCE SHEET (000 omitted): As of	12/31/48	12/31/48
Cash and Securities	$ 6,399	$17,789
Cash and Securities as % of Current Assets	21.7%	49.6%
Inventories	$ 6,332	$10,817
Inventories as % of Current Assets	21.6%	29.7%
Total Current Assets	$29,381	$36,430
Total Current Liabilities	$ 5,384	$11,905
Net Working Capital	$23,997	$24,525
Current Ratio	5.4	3.1
Fixed Assets, Net	$ 7,546	$20,521
Total Assets	$38,819	$58,688
Book Value Per Share	$41.79	$14.00
Net Current Asset Value Per Share	$30.00	$ 7.35
Recent Price of Common	$47.00	$63.00
Dividend Yield (on 1948 Dividends)	5.6%	7.9%
Price-Earnings Ratio (to 1948 Earnings)	8.7	8.7

a—Includes other income.
b—Parent company only.
c—Based on 3,340,000 shares in 1948-49 and 3,840,000 in prior years.

While the fertilizer, rayon, film, paint, plastics, petroleum, textile, paper and rubber industries are all heavily dependent on sulphur and demand varies a good deal with cyclical swings, the price for sulphur has been kept extraordinarily stable over a long period of years. Since 1926 it was held at $18 per ton, except during the 1938-1947 period when it was lowered to $16, and now it is exactly the same as it was 23 years ago. Though operating costs have naturally risen, volume gains have fully offset this, while abnormally high operating margins have enabled the two companies to earn very satisfactory profits and to pay dividends regularly for more than 20 years past. It is a situation where competition hardly entered the picture, and where price changes either up or down were unnecessary to assure ample earnings to both concerns.



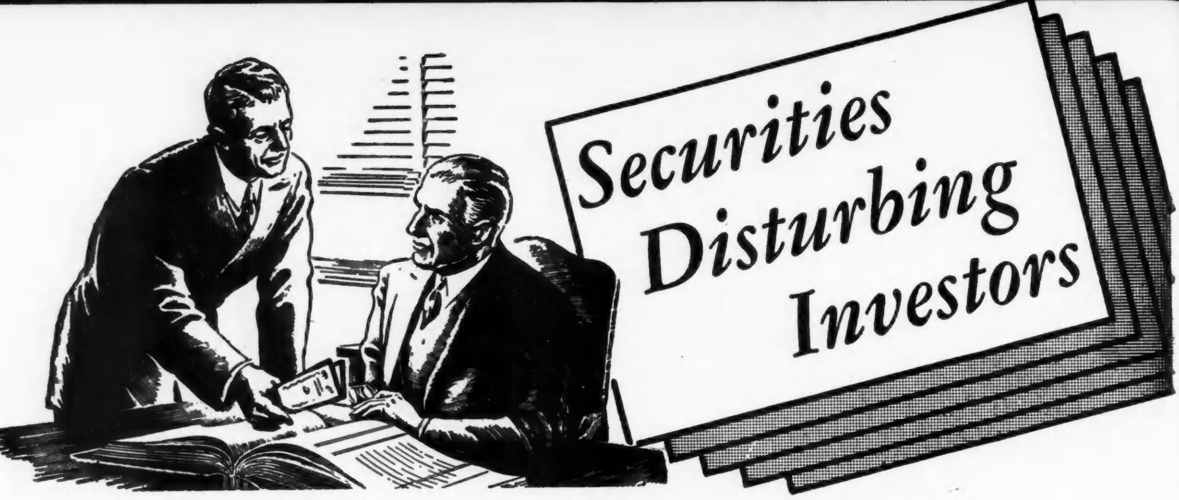
	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
EARN.	d 1.71	.20	2.14	5.30	3.06	4.46	4.48	3.67	7.19	5.30	E 3.25	
DIV.	-	-	-	1.75	2.00	2.00	2.00	2.25	2.25	3.50	2.50	
Wkg Cap $ Mil		7.4	7.3	5.5	8.2	9.6	11.1	11.9	24.3	23.1	20.8	

Joint ownership of Sulphur Export Corporation, organized under the Webb-Pomerene Act, has permitted sale of sulphur by Texas Gulf and Freeport in all foreign countries except Canada and Cuba through this medium. While the agreement allows both concerns to export equal amounts if desired, Freeport of late has chosen to sell abroad only about 25% of combined exports, leaving Texas Gulf free to ship 75% overseas though profits on this class of business usually are somewhat larger. Should domestic demand, however, recede at any time, Freeport Sulphur can take up the slack by increasing its foreign sales. Apparently this concern has preferred to entrench itself domestically rather than to make somewhat more money from foreign business, temporarily at least.

While the character of physical operations in producing sulphur is similar in both instances, and a stable price structure has been beneficial, policies of Texas Gulf Sulphur and Freeport Sulphur have differed somewhat. Additionally, there have been basic variations in operating costs that deserve study. Texas Gulf Sulphur, the largest unit in the field, produced more than 3.1 million tons of sulphur in 1948 compared with about 1.3 million tons by Freeport. Last year's record output by the dominant concern pushed dollar volume to a peak of $61.7 million and, as has happened for many years past, high sales have tended to hold operating margins at an exceptionally wide ratio, due to widely spread overhead. Few if any concerns in the chemical industry, or any other industry for that matter, have approached the record of Texas Gulf in this respect, with a pretax margin of 56.3% in 1948 and an average of close to 50% for ten years past. After allowing for taxes and special reserves last year, net earnings equal to 39.6% of sales attested to unusual success by ordinary standards, although this mark was more than once exceeded in former years.

Satisfactory pretax margins have also been characteristic of Freeport Sulphur and for many years past they have been exceptionally stable.. On sales of $23.3 million in 1948, the company's pretax margin was 24.4%, well below that of its competitor but comparing very well with most other enterprises. Final net earnings equalled 18.6% of sales. Aside from the factor of smaller volume than Texas Gulf, however, Freeport Sulphur's apparently higher basic cost of natural sulphur accounts for the discrepancy in their relative margins. (*Please turn to page* 253)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
EARN.	1.81	2.04	2.38	2.35	2.29	2.07	2.61	2.60	3.97	5.64	7.25	
DIV.	2.00	2.00	2.50	2.50	2.25	2.25	2.50	2.50	3.00	4.50	5.00	
Wkg Cap $ Mil		28.4	29.7	29.8	31.9	31.6	32.8	36.3	42.1	46.7	24.5	



CURTISS-WRIGHT COMMON — U. S. INDUSTRIAL CHEMICALS

By J. C. CLIFFORD

Investors interested in certain companies often have neither time nor ability to grasp the full significance of corporate problems that arise, sometimes unexpectedly. Of late, for example, we have received numerous requests to clarify the current status of two large enterprises, United States Industrial Chemicals, Inc. and Curtiss-Wright Corporation. We accordingly take this opportunity of passing on to our readers some information gathered in responding to our clients as to these situations, with the thought that others as well might find value in our comments.

Curtiss-Wright Corporation

Holders of common stock in this giant aeronautical concern, recently selling around 9, evidently are perplexed for more than one reason. Despite an exceptionally large accumulation of cash resources and big backlog orders, the company's earnings in postwar have been erratic and substantially distorted by tax adjustments from year to year. Operations in 1948 developed considerable improvement, and assurance by the management that quarterly dividends of at least 25 cents per share would be paid during 1949 should have enhanced confidence in the shares. But a yield of about 11% does not appear to have stimulated much interest, though to be sure, the current price of 9 is well above the 1948 low of 4⅜. In the current year the quotations have held within the narrow range of 7⅛-9⅞.

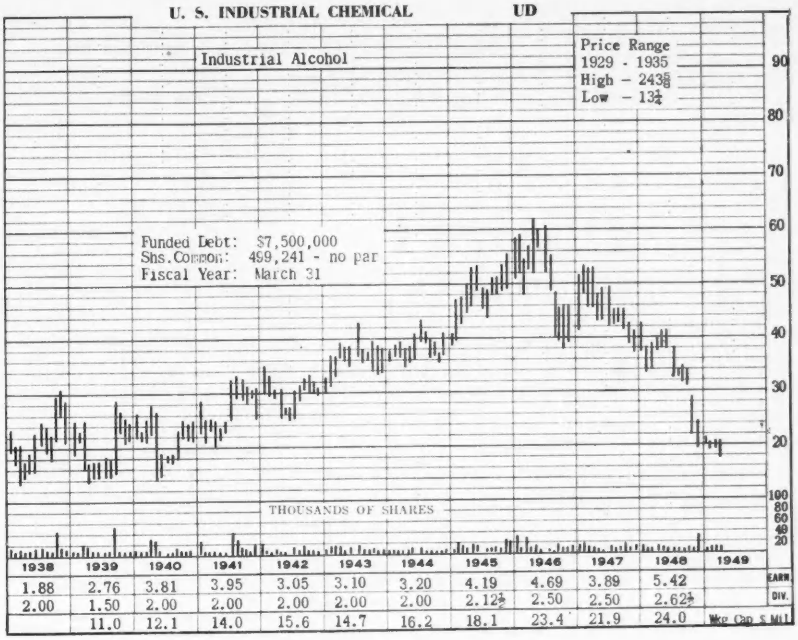
Curtiss-Wright, because of its experience, large facilities and strong finances, seems assured of substantial military orders in connection with the Defense Program. As of March 1, backlog orders of $146 million were $19 million higher than at the beginning of the year and compared with total 1948 volume of $111.7 million, of which about 65% represented military business. The company's competitive position as a producer of engines and planes, however, is less strong than formerly. Indeed, no complete airplanes are now being built, though large contracts for overhauling military aircraft together with subcontract work for other companies are being handled. Wright Aeronautical Corporation, the engine division, has sizable contracts for high powered units both from the Government and from commercial sources. The propeller division has achieved special success through production of hollow steel blade propellers that have been adopted for about half of both military and commercial aircraft lately constructed. Additionally, Curtiss-Wright has substantial military orders for its Electronic Flight Trainer, while rocket propulsion developments under Government contracts are continuously active.

From an operating viewpoint, Curtiss-Wright Corporation, in common with all the large competitors in its field, has had to struggle with large overcapacity since the end of the war, a factor that invariably cuts into profit margins. Then the progress of aeronautical science has been so rapid that endless changes in design delay output and thus absorb potential profits. For example, three full years were required to develop the company's XF-87 fighter plane at heavy engineering expense, but though this plane met performance requirements, the Air Force discontinued the production program for tactical reasons. We cite this because it shows not only the excessive burden of research and enginering costs before mass output can be achieved, but the illusive character of big backlog orders in this field.

Though Curtiss-Wright in 1948 reported consolidated net earnings of 46 cents per share in 1948, in contrast to a 47 cents deficit in 1947, this was mainly due to increased profits

Curtiss-Wright Corporation

	1949 March	(Quarterly Income Statistics) 1948 March	June	Sept.	Dec.
Net Sales (million)	$27.5	$23.4	$26.3	$24.1	$37.9
Net Income (million)	def$.8	$1.3	$1.3	$.6	$2.1
Net Profit Margin	....	5.6%	5.0%	2.5%	5.5%
Net Per Share	def$.17	$.12	$.12	$.01	$.22



of its engine division that apparently more than offset losses in some other divisions. In the first 1949 quarter, on the other hand, Wright Aeronautical Corporation on sales of $15.1 million experienced a loss of about $1 million, but the parent managed to pare its consolidated net loss to $759,000. Here again, abnormal development and research expenses seem to have precluded profitable operations. While full year results of the company may be in the black, the chances are slim that the $1 annual dividends on the common will be covered, though large cash resources assure their payment.

Holdings of $12 million cash and $64.1 million of Government bonds or other short term securities appear to burden Curtiss-Wright with a "cross of gold," for current liabilities of $33.2 million represent its only indebtedness. As a result of widespread dissatisfaction by stockholders over failure of the company to operate more profitably or to utilize its ample resources in other ways, G. W. Vaughan, chairman, and W. C. Jordan, present, resigned in April, P. V. Shields temporarily accepting the post of chairman. It is possible of course that under some new management the long term potentials of the company may be enhanced, but this remains to be seen.

What has further puzzled many stockholders is what to do about the offer of the company to consider tenders of common stock at prices up to $11 per share and in an aggregate amount not more than $4,202,152, effective through 1949. This does not imply that the company will pay more than the current market price of $9, though they might do so. In our opinion, despite the strong financial position of Curtiss-Wright and the present high yield on its shares, shareholders might as well tender their stock at slightly above the market, and if their offer is not accepted, dispose of their holdings by sale unless they prefer to retain what looks to us like a long term gamble. To some, the company's large cash resources may look attractive as a potential source of a future cash distribution, but this seems to us a dim prospect.

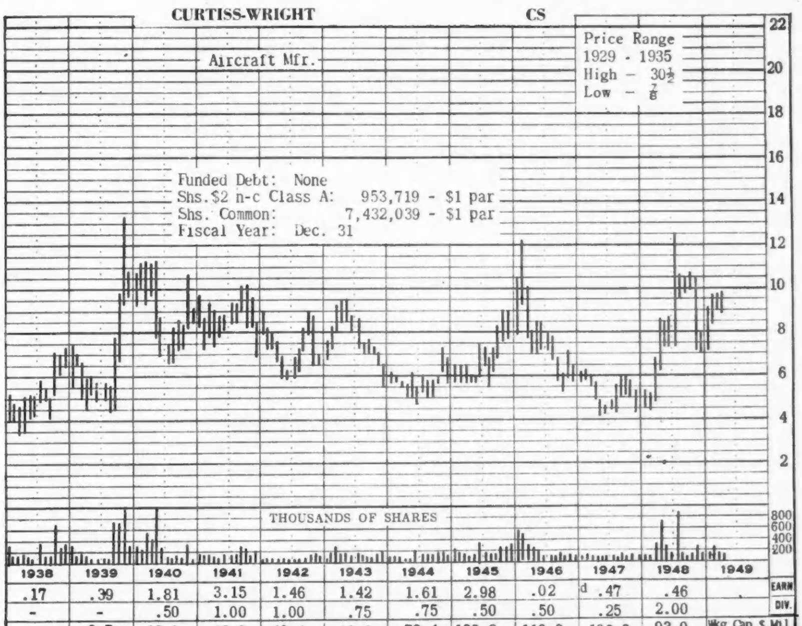
U. S. Industrial Chemicals, Inc.

The traditional stability of the chemical industry has not applied to the specialized field in which this concern operates. For (*Please turn to page* 256)

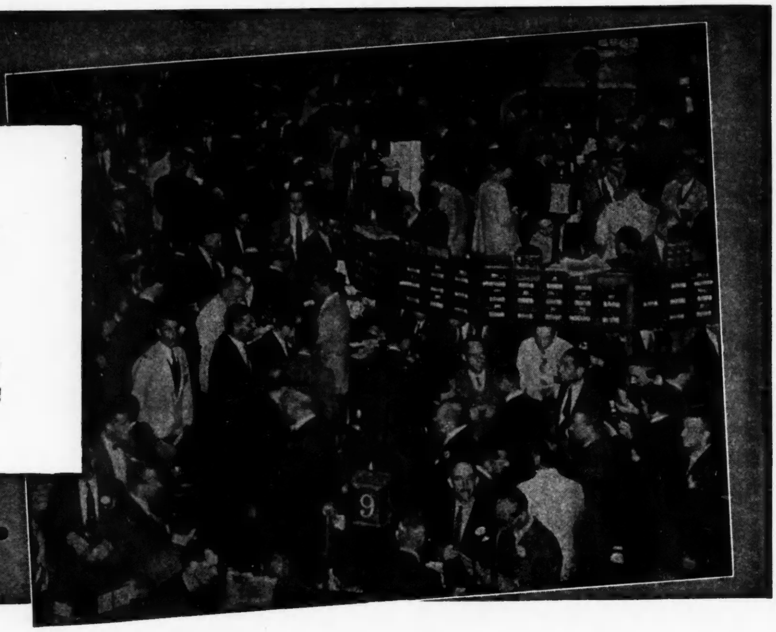
U. S. Industrial Chemicals

(Quarterly Income Statistics)

	1948 March	1948 June	1948 Sept.	1948 Dec.
Net Sales (million)	$13.9	$12.7	$14.3	$15.0
Pre-Tax Margin	6.3%	5.2%	1.0%	4.5%
Net Income (million)	$.8	$.5	$.1	def$2.6
Net Profit Margin	5.8%	3.9%	.8%	......
Net Per Share	$1.76	$.98	$.24	def$5.14



FOR PROFIT AND INCOME



June

As noted here before, the traditional "summer market rise" is measured from the low either May or June to the high of either July or August. On this basis, the record is impressive but somewhat misleading. If you confine it to any single month, results over the years have been highly diverse. Let's take a look at the June record, since this month of roses and weddings will have just begun when you read these lines. Going back to 1897, there has been a material advance in the industrial list in June in 21 years; a material decline in 16 years; an insignificant net change in 15 years. There is not a sufficient seasonal pattern in these results to provide any useful guidance. The same will be found to be so if July is considered alone or August likewise. We will take a detailed look at their statistical records some other time.

Shorts

At mid-May the short interest in stocks listed on the New York Stock Exchange had risen to 1,628,551 shares, the largest total in about 16 years, and an increase of about 130,000 shares since mid-April. Short-sellers are supposed to be smarter and better-informed than the average investor or trader. Conceding that this is probably so, the difference is not a very great one. If it were, variations in the short position would be one of the most useful indications available to analysts in weighing market potentials. Actually, they have never been a practical guide in market forecasting. With the daily industrial average around 174, obviously the market cannot be as good a short sale as it was at the bull-market high of 212 or so in 1946 or around any of the 1947-1948 intermediate rally highs within the area 186-193. It could be that the obvious evidence of business recession has been converting a goodly number of amateurs belatedly to the short side, rather than inducing more sophisticated bears to increase their short lines. For a good many weeks now the market has been much better than the business news, in that sense giving the shorts no comfort at all.

Groups

Conjecture about what "the averages" might do has been a profitless business for some time. There are as many stock markets as there are stock groups—in fact almost as many markets as there are individual stocks. Groups faring best recently—as judged by ability either to set new 1949 highs or to hold within striking distance of previous highs — include beer stocks, cement stocks, chemicals, confectionery, glass containers, drugs, finance companies, foods (with exception of meat packers), gold mining, office equipment, oil, retail trade (all main types except mail-order), shipping, motion picture stocks, tobacco products and electric and natural gas utilities. Perhaps the most interesting change over the last fortnight has been broadening improvement in the long dormant department-store stocks.

Poor

Groups most out of favor include auto stocks and auto parts, building materials other than

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Allied Stores	Year Jan. 31	$7.14	$6.20
American Tobacco	Mar. 31 quar.	1.83	1.25
Anaconda Copper Mining	Mar. 31 quar.	1.61	1.51
Consolidated Grocers	36 weeks Mar. 5	2.22	2.07
Froedtert Grain & Malting	9 mos. April 30	2.52	1.19
Hercules Motors	Mar. 31 quar.	.95	.83
Hershey Chocolate	Mar. 31 quar.	1.08	.97
Pullman	Mar. 31 quar.	.79	.43
Ronson Art Metal Works	Mar. 31 quar.	2.32	2.09
Twentieth Century-Fox	Mar. 26 quar.	1.04	1.00

cement, coal, electrical equipment, household equipment and floor coverings, leather, machinery, non-ferrous metals, paper, rail equipment, steels, sugar and the textile-apparel group. In this column's view, it is late to be unduly bearish on some of these. The better-grade stocks in the metals, paper and textile groups, for instance, appear fairly well sold-out.

Stocks

A partial list of individual stocks acting well includes May Department Stores, Associated Dry Goods, Federated Stores, First National Stores, Kroger Grocery, Jewel Tea, American Home Products, Sterling Drug, Merck, West Penn Power, Public Service of Colorado, Florida Power, El Paso Natural Gas, Southern Natural Gas, Lehigh Portland Cement, Standard Oil of California, Beatrice Foods, National Dairy Products, National Biscuit, Lorillard, Helme, U. S. Tobacco, Falstaff Brewing, Commercial Credit, Woolworth.

Beer

There is an independent bull market in beer stocks, most of the listed issues having surpassed their 1946 highs by a goodly margin. The basis for it is clear enough. On the one hand, volume will be well maintained because beer is the most inexpensive and most popular alcoholic beverage. On the other, the cost of materials is declining. This combination points to continuing good profits for well-situated brewers. Incidentally, and a matter of some potential importance, beer may be affected more favorably by the growth of television than any other single line. Video induces people to stay home more in the evenings, sit up later and to partake of more refreshments, snacks, etc. within the course of the evening—and video beer advertising is highly effective. The industry is decidedly competitive. Some of the biggest, nationally known companies do not have publicly listed securities; and there are any number of small local brewers. Among the listed stocks probably the best, in order, are Falstaff Brewing, Pfeiffer Brewing and Goebel Brewing. Each has substantial share earnings and pays dividends. The price-earnings ratios are moderate, but that is characteristic of equities not too high in investment quality. As to what the further market possibilities might be, your guess is as good as any this column could make.

Watch It

United Gas, listed on the Curb Exchange, is a stock to earmark for buying on the chance that it may become available at more attractive prices. The company holds first position in the growing natural gas industry with respect both to the volume of gas marketed and owned reserves of gas. Earnings are running at an annual rate of around $1.70 a share and the current yield from the adequately covered $1.00 dividend is over 6%. Over 95% of the stock (specifically 10,108,101 shares) is held by Electric Power & Light, which is controlled by Electric Bond & Share. The approaching dissolution of Electric Power & Light will involve distribution of this stock to its preferred and common shareholders, with Electric Bond & Share getting 2,871,000 shares thereof. Electric Bond & Share might distribute all or most of its holdings to its own shareholders. In any event, some percentage of individual investors receiving United Gas will convert it into cash for one reason or another, putting pressure on the stock. In anticipation thereof, it has already reacted moderately. A wide break is improbable, for this issue will appeal to investment trusts and other large investors on moderate concessions.

Admiral

Admiral Corp., little known a few years ago, may well be the most successful company in television and become one of the top three or so in volume. The management has shown excellent judgment to date in a number of respects. Admiral refrigerators and stoves are made for the company on contract by other manufacturers, involving no investment in plant facilities and minimizing inventory problems. Admiral avoided overproduction of radios and was the first to introduce combination units in which the phonograph will play any of the three types of records being marketed. Admiral emphasizes a low-price policy, playing for the mass market. Admiral advertising, including sponsorship of two of the most popular shows on television, is aggressive and effective. Earnings this year should about double 1948's $3.78 a share. But as is always so in a fast-growing field, prospects throughout television are quite speculative.

Tires

The "cold rubber" process, already being gradually adopted, will add a third or more to the average life of automobile tires, reducing annual replacement demand proportionately. It would take some years of population growth before increased automobile registrations could offset this influence on volume, assuming no further extension of tire life meanwhile through additional technological progress. What this will do to tire company earnings remains to be seen.

The Garden

Acquisition of Twentieth Century Sporting Club and a deal to buy the Tournament of Champions will assure control of big-league boxing events in New York City by Madison Square Garden. This improves the company's outlook materially. So far, television has not cut Garden attendance; and sale of television rights to events under Garden control will clearly be an increasingly important source of direct revenue.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

			1949	1948
American Broadcasting Co.	Mar. 31 quar.	def.	$ .04	0 .42
Carrier Corp.	12 mos. April 30		3.14	3.59
Eureka Williams Corp.	9 mos. April 30	def.	.73	.57
Food Machinery & Chemical	Mar. 31 quar.		.55	1.22
General Shoe	6 mos. April 30		1.33	1.92
Magnavox	Year Feb. 28		2.01	3.36
Noma Electric	9 mos. Mar. 31		.74	3.76
Publicker Industries	Mar. 31 quar.	def.	.22	.58
Radio-Keith-Orpheum	April 2 quar.		.27	.34
Union Oil of California	Mar. 31 quar.		1.54	1.62

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Gulf Oil Corporation

"In your excellent article on the oils on April 9th on page 24, you were unable to include data on Gulf Oil Corporation, because the company had not published its report and earnings for 1948. As they have done so since, I am writing, requesting recent facts on the company. As this is one of the outstanding companies in the oil industry, no doubt other readers would also be interested." *L.B., Platteville, Wisconsin*

Reflecting a record volume of business and higher price levels, Gulf Oil sales and other revenues in 1948 exceeded $1 billion for the first time, totalling $1,068,800,000 which compared with $797,200,000 in 1947.

Net earnings were $153,539,299 for 1948, compared with $95,540,059 in the previous year. Based on the 11,345,250 shares outstanding at December 31, 1948, earnings were equal to $13.53 a share last year, compared with $10.53 a share in 1947, based on 9,076,200 shares then outstanding.

Included in the 1948 net income were earnings of $24,100,000 in foreign countries in the Western Hemisphere and $10,900,000 in the Eastern Hemisphere. Included also is a special item of non-recurring income of $19,659,000 derived from the sale of 500,000 shares of Texas Gulf Sulphur Company stock, after deducting United States capital gains tax. This latter amount was largely offset, however, by a special deduction from income of $18,291,000 for amortization applying to non-producing leases and mineral fees in the United States.

Through the sale of additional capital stock and the refinancing of certain borrowings at favorable terms, the company was able to maintain a strong financial position during the year. Current assets were $393,300,000 the end of 1948. After deducting current liabilities, the balance of $213,400,000 representing net working capital, was $83,900,000 more than at the close of 1947.

During 1948, Gulf spent $239,550,000 to develop additional crude oil resources, for new plants and facilities, for replacement of worn-out or obsolete properties and equipment, and for related business investments.

In crude oil production, the company maintained a strong position in the three principal producing areas, the United States, Venezuela and the Middle-East. Net crude oil produced in 1948: total barrels 166,428,163. Crude oil processed at refineries: total barrels 140,558,250.

Stockholders equity per share as of December 31, 1948 was $67.49.

Cash dividends last year totalled $3.00 per share and in addition, a special year-end dividend of one share of Texas Gulf Sulphur Company common stock was distributed for each 65 shares of Gulf Oil. Regular quarterly cash dividends of 75c per share, have been declared thus far this year.

Petroleum industry outlook for 1949 appears to be one of further increased volume, but with lower prices for some products and consequently somewhat lower profits.

Consolidated earnings estimated for quarter ended March 31, 1949 are $2.37 per share, compared with $3.39 in first quarter of last year.

Schenley Industries

"I am very much interested in Schenley Industries. Would you advise me on their recent earnings and do you feel that their dividend is safe?"
B.F., Auburn, New York

Schenley Indutries is a leading domestic producer of distilled liquors, an important factor in the American wine industry, engages in the brewing of beer, and produces cordials and Porto Rican rum. The company has also diversified in other fields. It is a major producer of pencillin, plans large-scale production and marketing of Streptomycin and intends to expand its activities in the pharmaceutical field. Schenley is furthermore a large supplier of livestock and poultry feed and is also engaged in the manufacture of cooperage. Whiskey sales account for about 85% of revenues. Net sales for the fiscal year ended August 31, 1948 amounted to $459,000,000 and net profit to $29,524,000, equal to $8.20 per share.

Consolidated earnings for the six months to February 28, 1949 after Federal income taxes, amounted to $17,156,688, equal to $4.76 per share, compared with net profit of $21,387,864, equal to $5.94 per share for the corresponding period of the preceding year.

Distributions on present stock, following split-up in 1945, and 1946, have been maintained on a $2.00 annual dividend basis. Coverage appears adequate to assure maintenance of this rate.

Liquor consumption has been declining and therefore, competition is intensifying and profits may be somewhat lower this year. However, the stock appears conservatively appraised at current market and yields an excellent income return.

American Locomotive Company

"Does the outlok for Diesel locomotives enhance the earnings outlook for American Locomotive Company? Please advise on recent operations."
A.M., Guthrie, Oklahoma

Net profit of American Locomotive Company for 1948 amounted to $5,491,000. This was equivalent, after preferred dividends, to $2.30 per common share, compared with $4,421,000 or $1.70 per share in 1947.

During 1948, shipments of the company reached a record total for any peacetime year of $143,919,000. This is $33,391,000 more than 1947 shipments and almost twice the sales of pre-war 1941. The 1948 profit is low in relation to the volume of output, and reflects the heavy operating expenses incident to the total abandonment of steam locomotive manufacture and a swift transition to all-out production of diesel-electric locomotives.

The recent backlog of unfilled orders was $105,000,000, which compares with $115,000,000 about a year ago.

Railroads that have turned to dieselization are already realizing very great economies in operating costs, and many Class I railroads have already inaugurated programs looking to complete dieselization.

Since replacement parts can be supplied better and more economically by the original manufacturer of diesel-electric locomotives, this business is likely to become more important for the company as time goes on.

Dividends totalled $1.40 per share in 1948 and 35 cents was paid in the first quarter of 1949.

An important research development of American Locomotive Company is its collaboration with General Electric Company in the development of a gas turbine locomotive.

Plant improvements during the past eight years have amounted to $26 million or about half the cost of existing facilities. Outlook for coming months appears favorable.

Continental Can Company

"Would appreciate information as to sales volume net earnings and income return of Continental Can Company."
C.W., Newark, N. J.

Consolidated net earnings of Continental Can Company and wholly owned subsidiaries for the twelve months ended March 31, 1949, applicable to the common stock, amounted to $3.94 per share compared with $4.29 per share in the corresponding twelve months period ended March 31, 1948.

Deductions last year for depreciation and depletion of $6,184,645 and for income taxes of $7,731,194, compared with $5,972,623 and $8,563,591 deducted respectively in the corresponding twelve months period ended March 31, 1948. Net sales for the 12 months amounted to $317,135,874 against $284,735,785 for the corresponding twelve months ended March 31, 1948.

Company stated that it is natural to expect some slowing-up in the demand for certain types of containers after the heavy demand in the last quarter of 1948 prior to the price rise. Normally, due to the seasonal nature of many of the industries served by the company, the major portion of production and sales necessarily falls in the second and third quarters of the year. For this reason sales volume in the first quarter does not usually represent a proper gauge of the probable volume for the year.

Undoubtedly some lines will be down from last year and others are expected to show higher sales. However, barring a major recession in general business, expectations are that nothing more than a moderate reduction in the overall volume of the year is indicated.

Company spent for expansion and improvement in facilities $14,355,000 last year and capital expenditures in 1949 are expected to be approximately on the same level.

Dividends including extras totalled $1.50 a share in 1948 and 50 cents is paid in the first half of the current year.

Inland Steel Company

"I have been a subscriber to your good Magazine for twenty years. Would appreciate receiving information on Inland Steel Company as to recent earnings and prospects."
C.A., Boston, Mass.

Net sales of Inland Steel Company for the quarter ended March 31, 1949, amounted to $101,445,598, an increase of 12.1% over the $90,527,112 reported for the corresponding period of 1948. Net income was $9,254,230, or $1.89 per share, as compared with $8,458,544, or $1.73 a share in the initial 1948 quarter. Average ingot production was 103.3% of rated capacity, compared with 107.3% in the same period last year.

The company is restoring and strengthening its open hearth building structures and redesigning its furnaces for the purpose of expanding capacity and to permit the more extensive use of oxygen. An initial loss in production of ingot must naturally follow as furnaces are taken out of production while the work is in progress.

Although there has been a definite easing in activity in many steel consuming industries, present commitments of the company assure capacity operation during the second quarter. The demand for Inland's products for the third quarter is still substantial and barring a drastic change in economic conditions, operations in that period should continue on a satisfactory basis.

For the fiscal year ended December 31, 1948 net sales of Inland Steel amounted to $392,708,370 and net income to $38,606,898, equal to $7,.88 per share. This compares with 1947 net sales of $315,031,042, net income of $22,588,558, equal to $4.61 per share. Dividends last year totalled $3.00 per share and $1.00 has been declared thus far in the current year.

McLellan Stores

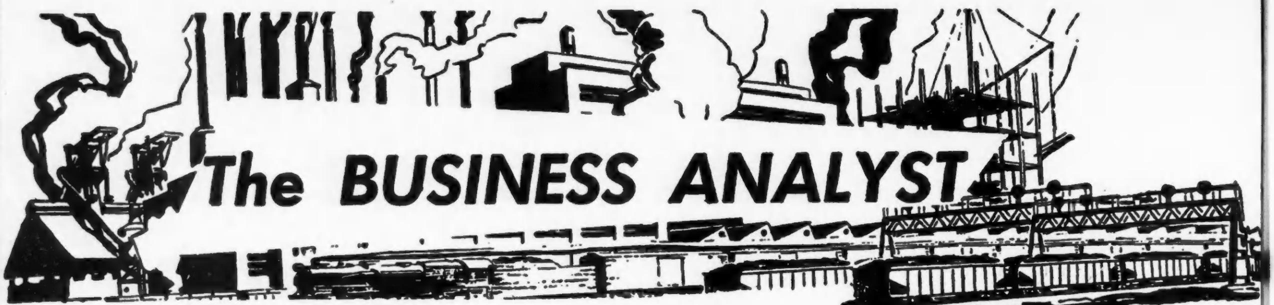
"Please furnish information as to number of stores operated by McLellan Stores, recent earnings and working capital position." *D.J., Tampa, Florida*

McLellan Stores Company, listed on the New York Stock Exchange, operators of a nation-wide variety store chain of 227 stores, reported net sales of $55,526,785 for the fiscal year ended January 31, 1949, the highest in the company's history. This represents an increase of 9.1% over the $50,895,734 shown for the preceding twelve months.

Net earnings for the year amounted to $3,063,784, equivalent to $3.60 per share on the common stock outstanding. This compares with earnings of $3,084,293 or $3.62 per common share the year before. The company has 851,145 shares of common stock outstanding. The decline in earnings ratio to sales last year was due to lower profit margins brought about by declining price trends in textile merchandise and to increased operating expenses. Cash dividends amounting to $2.00 per share were paid on the common stock during the year, and this represents a distribution of 55% of the year's earnings.

Average sales per store increased 7% in 1948.

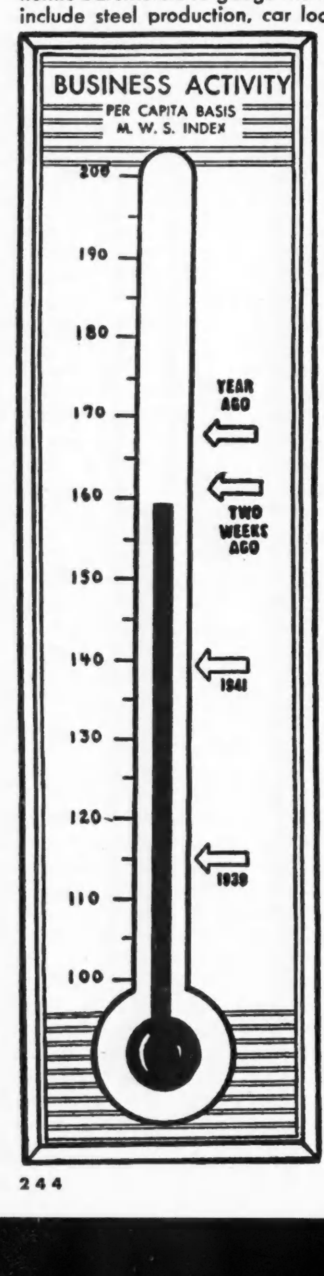
Working capital on January 31, 1949 amounted to $9,685,780 compared with $9,541,637 a year earlier. This satisfactory financial position was accomplished even though $1,710,512 was used for new store openings and for existing store modernization.



What's Ahead for Business?

By E. K. A.

Business men are keeping a careful watch on major economic barometers to gauge the trend of things to come. These include steel production, car loadings, electric power output and bank loans — and all point downward. In fact, the downward trend of basic indicators has become more pronounced, indicative of the progressive contraction of the nation's economy; the slow easing in both trade and production now under way for five months or so continues to be the main trend.



Production is now running about 10% below the postwar peak established last fall, and trade is slackening off some 4% under last year's dollar sales. Wholesale prices have given up about 8%. The relatively moderate nature of these declines is frequently cited as a good reason for believing that we are still having a readjustment, are not facing anything like a severe recession. It is a sensible viewpoint, so far, but it cannot be a final one—not until we know how far the adjustment will carry us down later in the year. With the steel rate gradually receding, a crucial period for that industry will come in summer. A sign of what lies ahead is that new orders of some steel companies are already falling materially behind current production, much of which represents order backlogs. Another straw in the wind: The Commerce Department has decided to discontinue the voluntary steel allocations program after September. Steel users report that for the first time since the war, they can order—for July delivery, all the steel they want. It means that the steel boom is over, and that the operating rate during the second half will perhaps be substantially below that currently prevailing—provided steel does not run into prolonged labor troubles.

Viewing the overall picture, one must conclude that the general downtrend has been proceeding faster than anticipated, that business is already experiencing what many did not expect until the second half. The speed of the correction is far from an unmitigated evil, for it tends to shorten the recessive interlude, brings nearer the turning point which many now see late this year or early next.

Business has already greatly curtailed its spending on inventories, and once high priced stocks are worked off, it means reordering — at lower prices, making possible reductions of sale prices of finished goods. This should restimulate production and trade. One of the main threats inherent in the present situation is that shrinkage in consumer spending may frighten business into cutting expansion and improvement programs too deeply. Combined with curtailment of inventory buying, this would be a double-barrelled blow that were bound to postpone the day of ultimate recovery. Thus business psychology will be an important intangible in the months to come. Just now it's rather jittery. What's necessary is a longer look ahead, replacing short term caution with long term planning to lay the ground for the period of expansion and prosperity that is bound to follow.

Employment Trends

Industrial employment leveled off in April after a three-month slide, but declines in the factory work week cut average weekly earnings by nearly a dollar. At the same time, unemployment insurance benefits paid out in April dropped $15.6 million from March and the average weekly number of beneficiaries went down to 1,605,000, a decline of 183,000. Reduced work hours were reported in all major durable goods industries except lumber and automobiles. Marked reductions showed up in steel fabricating while textiles, apparel and leather plants reported a two-hour cut. In other words, the full extent of recessive trends is cloaked by the mounting number of workers on reduced schedules; the trend has been to cut working hours rather than lay off hands wherever possible. Thus while the unemployed in April numbered 3,016,000 or 823,000 more than a year ago, the number of those working less than 35 hours a week rose, in April, 1,543,000 over last year's level. This trend continues, and it naturally means that disposable income of many workers is well under last year's figure. It is bound to find expression in the public's spending attitude as well as spending power.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—During the fortnight ended May 14, common stock averages dropped to lowest level since February 26, date of the year's lows. Among our 46 group indexes, 7 made new highs, and 10 new lows, during the fortnight. Our index of 100 High Priced Stocks, however, is still higher than on April 30. Market as a whole is now down 2.2% on the year and still full of cross-currents. At one extreme appears the food stores group—up 27% on the year; at the opposite extreme, are radio and television stocks, with an average decline of 35%. Better grade preferred stocks and corporate bonds were up a little. Foreign government dollar bonds eased off a bit after ten weeks of rising prices. U. S. Government bonds advanced fractionally under heavy purchases by member banks, mostly from reserve bank holdings, to employ $1.2 billion of reserve funds recently released by the F. R. B. A further cut of $800 million in reserve requirements is expected before June 30. This will become obligatory unless Congress extends the Board's credit powers, which now seems improbable. Reserve Board has cut, to 25%, from former 50%, margin requirements for purchasing securities under subscription rights. Treasury receipts in the first 10½ months of the current fiscal year have been 11% under the like period last year, with outgo rising 7%. Treasury's current surplus is down to $1.5 billion, from $7.7 billion a year ago. Congressional staff of tax experts estimates that, with business receding, receipts next year will be $1 billion under the $41 billion estimated in the President's January budget message. Sterling exchange futures decline under persistent rumors that the pound will be devalued this year to check the drop in British exports. So importers, like buyers here, are cutting orders while waiting for lower prices. At least one British woolen exporter is guaranteeing import customers against any loss this year from devaluation. The International Monetary Fund has agreed to let the Union of South Africa sell semi-fabricated gold to manufacturers at a premium, subject to controls designed to prevent the metal from going to hoarders.

TRADE—Department store sales have been fluctuating during the past few weeks around an average level of 3% below last year—same decline that is now shown by the nation's overall physical volume of business activity.

INDUSTRY — Business activity is off 1¼% in the fortnight ended May 14, and is now 3.3% under last year and down 5% from its all-time peak. Little evidence as yet that the thus-far mild recession is over; though non-ferrous metal prices seem to have stabilized for the time being. People still have more money to spend than a year ago; but prefer to save. Most disquieting aspect of present situation is the tendency to cut down on capital expenditures.

COMMODITIES—Futures fluctuate with changes in weather conditions; but drift lower on balance under prospects of bumper crops. Locust pest stages its decenial threat to crops. Spot prices for old crops firm, with special strength in sugar and wool. Our index of raw material spot prices unchanged in week ended May 14, after ten weeks of uninterrupted declines.

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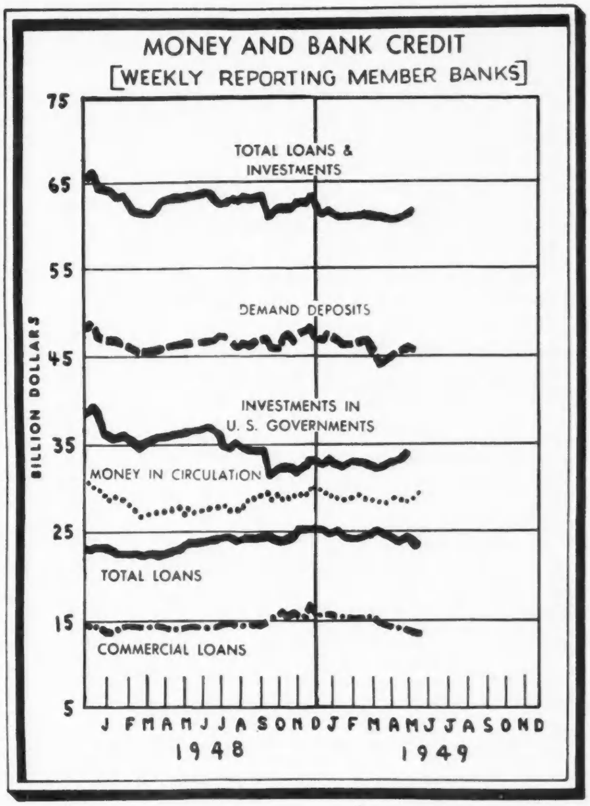
Thus far the recession, as measured by statistical yardsticks, has been relatively mild by comparison with the daily deluge of news stories about lay-offs and cut-backs. Thus, according to a recently released Commerce Department report, our **Gross National Product** for the first quarter, on a seasonally adjusted basis, was valued at only 3.4% less than the all-time high annual rate of $265 billion reached in the fourth quarter. Virtually all of the decline, moreover, was in prices; our own index for the two periods shows that contraction in actual physical volume amounted to only ¾ of 1%.



* * *

Personal Incomes declined in March, but only a little, for the third consecutive month. On a seasonally adjusted basis, they were down 3% from the December peak; but were still 3% larger than a year earlier. Even on a per capita basis, disposable incomes still possess a somewhat larger purchasing power than a year ago; so that the small decline in retail sales thus far this year can only mean that people are voluntarily saving more and spending less, hoping that their money will go farther later on.

* * *

The recent slump in non-ferrous metal prices shows that business men are following the same policy, failing to realize that capital expenditures are the main **Source of Profits.** If profits are used largely to pay off bank loans, instead of keeping the money in circulation, the time may come when there will be few, if any, profits to spend, and they will have only themselves to blame for this.

* * *

Business Expenditures function as a pump to keep money circulating. If the pump slows down, business and consumers

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Apr.	1.28	1.24	1.01	1.55
Cumulative from mid-1940	Apr.	380.8	379.5	367.0	13.8
FEDERAL GROSS DEBT—$b	May 18	251.6	251.6	252.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	May 11	45.9	45.8	46.4	26.1
Currency in Circulation	May 18	27.4	27.5	27.7	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	May 11	8.36	8.37	8.39	4.26
93 Other Centers—$b	May 11	12.26	12.24	12.25	7.60
PERSONAL INCOMES—$b (cd3)	Mar.	216.5	218.5	207.8	102
Salaries and Wages	Mar.	136.7	139.0	130.6	66
Proprietors' Incomes	Mar.	49.0	49.7	48.4	23
Interest and Dividends	Mar.	18.3	18.3	16.6	10
Transfer Payments	Mar.	12.5	11.5	12.2	3
(INCOME FROM AGRICULTURE)	Mar.	23.9	22.2	22.7	10
CIVILIAN EMPLOYMENT—m (cb)	Apr.	57.8	57.6	58.3	51.8
Agricultural Employment (cb)	Apr.	7.8	7.4	7.4	8.8
Employees, Manufacturing (lb)	Mar.	15.5	15.7	16.2	13.8
Employees, Government (lb)	Mar.	5.8	5.8	5.5	4.6
UNEMPLOYMENT—m (cb)	Apr.	3.0	3.2	2.2	3.8
FACTORY EMPLOYMENT (1b4)	Mar.	151	153	160	147
Durable Goods	Mar.	175	178	188	175
Non-Durable Goods	Mar.	132	133	138	123
FACTORY PAYROLLS (1b4)	Feb.	358	363	354	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Mar.	38.9	39.4	40.4	40.3
Hourly Wage (cents)	Mar.	137.2	137.7	128.9	78.1
Weekly Wage ($)	Mar.	53.37	54.25	52.07	32.79
PRICES—Wholesale (1b2)	May 17	156.0	155.9	163.8	92.5
Retail (cdlb)	Mar.	189.5	189.2	188.6	116.2
COST OF LIVING (1b3)	Mar.	169.5	169.0	166.9	110.2
Food	Mar.	201.6	199.7	202.3	113.1
Clothing	Mar.	193.9	195.1	196.3	113.8
Rent	Mar.	120.1	119.9	116.3	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Mar.	10.47	8.95	10.73	4.72
Durable Goods	Mar.	3.06	2.47	2.95	1.14
Non-Durable Goods	Mar.	7.40	6.48	7.78	3.58
Dep't Store Sales (mrb)	Mar.	0.75	0.59	0.84	0.49
Retail Sales Credit, End Mo. (rb2)	Mar.	7.51	6.90	6.53	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Mar.	218	220	257	181
Durable Goods	Mar.	245	253	314	221
Non-Durable Goods	Mar.	202	201	223	157
Shipments (cd2)—Total	Mar.	326	335	326	187
Durable Goods	Mar.	381	387	365	227
Non-Durable Goods	Mar.	294	304	306	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Mar.	36.0	32.1	36.5	28.6
Manufacturers'	Mar.	18.0	16.4	18.1	16.4
Wholesalers'	Mar.	7.5	6.8	7.7	4.1
Retailers'	Mar.	10.5	8.9	10.7	8.1
Dept. Store Stocks (mrb)	Mar.	2.3	2.1	2.4	1.4
BUSINESS ACTIVITY—1—pc	May 14	159.0	160.1	168.0	141.8
(M. W. S.)—I—np	May 14	182.5	183.8	188.7	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 245)

alike will be stricken with economic anemia. Then the Government will step in with artificial stimulants that may make the patient a chronic invalid. It begins to look as though organized labor, which denounces profits and demands that they be reduced, may soon have its way; but at the expense of rising unemployment.

* * *

Electric Power generation is among the few remaining business activities holding above last year; but it is predicted that even this indicator may soon dip below the previous year for the first time in over three years. Unless the fall in demand is soon checked it is feared that present plans for plant expansion, involving capital expenditures of around $4.4 billion over the next 2½ years, may be curtailed, thereby accelerating the recession. Excess capacity in March had already reached 15%, the largest reserve in four years. Long range planning for this industry calls for average expansion of 5% a year.

* * *

Critics who attack the capitalistic system derive their most potent verbal ammunition from **The Business Cycle.** Private enterprise instinctively curtails expansion outlays while business is receding and both labor and materials are available at reasonable cost, thereby deepening the depression; then stampedes to correct the deficiency when labor and materials are both scarce and costly, thereby adding fuel to the flames of inflation. The time has come for business to devise methods of correcting this defect voluntarily, thereby ironing out the business cycle; otherwise the deadening hand of Government will steal in to socialize industry.

* * *

Despite heavy stock-piling of coal by domestic and foreign consumers, in anticipation of the usual summer strike, **Business Activity** has been contracting recently at an accelerated pace. During the fortnight ended May 14, our index was off 1¼%, to a level 3.3% below last year at this time and 5% under its all-time peak touched early in January.

* * *

Expenditures for new **Construction** during April were 1% under the like month last year, compared with a four-months' rise of 10%. New dwelling units started in April numbered 14% fewer than last year, against a 13% decline for four months.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Mar.	184	189	191	174
Mining	Mar.	133	148	142	133
Durable Goods Mfr.	Mar.	223	226	229	220
Non-Durable Goods Mfr.	Mar.	168	173	177	151
CARLOADINGS—t—Total	May 14	772	768	847	833
Manufactures & Miscellaneous	May 14	338	337	367	379
Mdse. L. C. L.	May 14	94	94	108	156
Grain	May 14	46	44	38	43
ELEC. POWER Output (Kw.H.)m	May 14	5,257	5,284	5,109	3,267
SOFT COAL, Prod. (st) m	May 14	11.0	11.2	13.2	10.8
Cumulative from Jan. 1	May 14	195	184	204	446
Stocks, End Mo.	Mar.	60.5	68.8	43.6	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	May 14	4.9	4.9	5.4	4.1
Gasoline Stocks	May 14	122	123	108	86
Fuel Oil Stocks	May 14	62	61	53	94
Heating Oil Stocks	May 14	52	51	36	55
LUMBER, Prod. (bd. ft.) m	May 14	688	682	612	632
Stocks, End Mo. (bd. ft.) b	Mar.	7.3	7.2	5.6	12.6
STEEL INGOT PROD. (st.) m	Apr.	7.78	8.39	6.22	6.96
Cumulative from Jan. 1	Apr.	31.8	24.0	28.3	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	May 19	158	131	83	94
Cumulative from Jan. 1	May 19	2,880	2,722	2,420	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	May 14	148	188	156	165
U. S. Newsprint Consumption (st)t	Apr.	467	464	439	352
Do., Stocks (mpt), End Month	Apr.	696	688	528	523
Wood Pulp Stocks, End Month (st)t	Mar.	140	124	95	98
Motor Vehicles, Factory Sales—t	Mar.	518	427	492	352
Portland Cement Production (bbls.)m	Mar.	15.4	13.7	14.5	14.9

PRESENT POSITION AND OUTLOOK

Nevertheless, the Commerce Department looks for a 6% increase in outlay this year, compared with 1948, largely because of substantial increases expected in heavy engineering and state and municipal building activities.

* * *

Freight Cars delivered in April totaled 10,587; but this was probably the last month this year in which the 10,000 mark will be reached. Only 30 were ordered during April and backlog at the end of the month was down to only 62,369—half of the total a year earlier. Railroads are withholding orders until steel prices come down.

* * *

Our March **Exports** were the largest for any month last year, except December. Excess of exports over imports was 11% larger than a year earlier. However, judging from carloadings reports, most of this encouraging spurt in exports was lost in April.

* * *

Domestic **Air Lines** carried 15% more passengers in April than a year ago. Most of the scheduled air carriers returned to profitable operations in April. American Airlines has led in improvement over 1948, with April earnings estimated in some quarters as high as $1 million.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Close—100)	1949 Indexes High	Low	May 14	May 21
320 COMBINED AVERAGE	127.6	115.5	120.2	117.5
4 Agricultural Implements	200.0	167.5	175.0	172.1
10 Aircraft (1927 Cl.—100)	175.3	145.1	159.8	156.9
6 Air Lines (1934 Cl.—100)	435.6	366.1	425.0	410.0
6 Amusement	93.4	75.7	93.4A	91.7
12 Automobile Accessories	188.9	162.1	167.6	162.1b
12 Automobiles	29.7	23.0	23.5	23.0e
3 Baking (1926 Cl.—100)	19.7	18.4	19.2	19.7A
3 Business Machines	237.4	210.0	217.7	217.5
2 Bus Lines (1926 Cl.—100)	130.1	118.3	125.7	127.9
5 Chemicals	235.2	220.8	228.7	226.2
3 Coal Mining	19.2	12.5	12.7	12.5d
4 Communication	39.4	35.0	36.8	35.6
13 Construction	58.5	51.9	53.2	52.3
7 Containers	284.1	260.3	268.0	260.3e
9 Copper & Brass	95.8	73.6	77.2	74.4
2 Dairy Products	59.3	53.3	59.3A	58.5
5 Department Stores	54.9	49.2	52.8	52.4
6 Drugs & Toilet Articles	154.3	141.6	151.5	149.0
2 Finance Companies	276.9	246.1	276.9C	276.7
7 Food Brands	154.4	146.0	153.4	151.6
2 Food Stores	75.0	58.5	75.0B	74.1
3 Furniture	70.7	59.0	59.0	59.5
3 Gold Mining	733.9	566.3	707.3	683.0

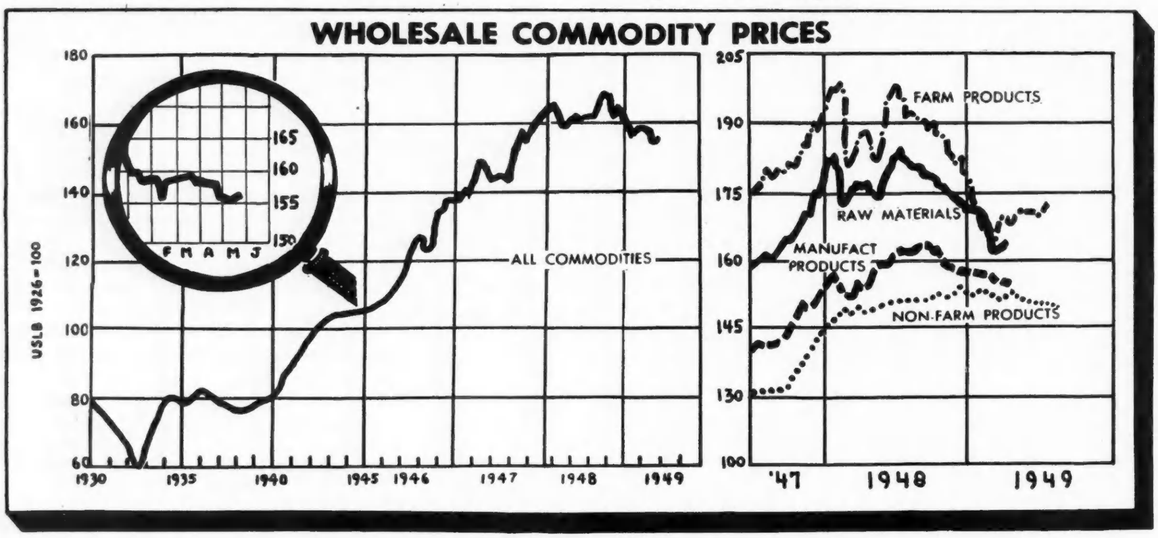
(Nov. 14, 1936, Cl.—100)	High	Low	May 14	May 21
100 HIGH PRICED STOCKS	80.68	74.54	77.81	75.72
100 LOW PRICED STOCKS	146.36	130.57	135.12	131.73
6 Investment Trusts	60.3	53.9	59.0	58.8
3 Liquor (1927 Cl.—100)	688.2	624.6	640.8	640.8
10 Machinery	136.9	122.9	128.2	126.0
3 Mail Order	104.9	91.8	100.0	97.7
3 Meat Packing	79.9	67.3	68.4	67.3e
12 Metals, Miscellaneous	158.1	134.2	138.9	134.2e
4 Paper	37.3	31.0	31.3	31.0d
29 Petroleum	245.7	210.9	234.7	227.7
21 Public Utilities	116.9	102.4	116.9A	116.1
6 Radio (1927 Cl.—100)	26.7	16.5	16.8	16.5b
9 Railroad Equipment	50.0	40.9	42.5	40.9f
24 Railroads	23.4	19.5	20.7	20.3
3 Realty	23.9	22.1	23.5	23.3
3 Shipbuilding	144.4	124.9	133.1	132.2
3 Soft Drinks	367.4	298.2	348.3	339.1
14 Steel & Iron	106.2	87.5	91.0	87.5d
3 Sugar	48.5	42.0	43.9	43.7
2 Sulphur	273.5	233.8	272.5	273.5A
5 Textiles	132.5	103.3	107.8	106.0
3 Tires & Rubber	31.6	28.9	29.7	29.2
6 Tobacco	73.5	67.1	72.8	72.6
2 Variety Stores	324.1	308.3	323.5	322.5
17 Unclassified (1948 Cl.—100)	105.3	94.0	101.7	101.4

New HIGH since: A—1948; B—1947; C—1946.

New LOW since: b—1947; d—1945; e—1944; f—1943.

Trend of Commodities

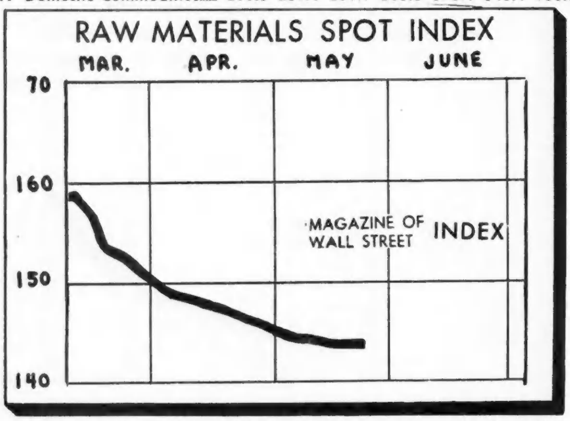
Commodity futures, while fluctuating with changes in weather conditions, closed a little lower during the fortnight ended May 14, mildly depressed by prospects of another season of bumper crops with inadequate storage facilities. New crop futures are already, in some instances, selling below Government support levels. Canada's western grain belt is preparing to combat what threatens to be the worst locust infestation since 1938. Spot prices for old crops displayed firmness, with special strength in sugar and wool. Non-ferrous metal prices are still declining but at a slower pace. Demand in some instances has almost vanished. As an inducement to keep grain on the farm, the Agriculture Department has agreed to extend loans and purchase agreements another year beyond June 30 on wheat, oats and barley, and has offered bonuses to farmers who erect their own storage facilities. Similar inducements for corn will be announced later. Preparations for corn planting are ahead of schedule. With acreage to be planted this year only 2% below last year, another record crop is in prospect, weather permitting. This year's acreage may be the smallest in 50 years, but yield per acre was 43 bushels last year, compared with the 1939-40 average of only 29 bushels. Domestic consumption of cotton in April fell to 597,031 bales—29% below last year, and smallest for any month since June, 1940. On the other hand, world consumption of new rubber in March was 9% under last year and largest for any recent month since October. Growers nevertheless are complaining about competition with synthetic, which promises to become keener with improvement in production techniques. The U. S. and England have dispelled Cuba's worries over a threatened 1949 sugar surplus by contracting for 750,000 long tons.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices — August, 1939, equals 100

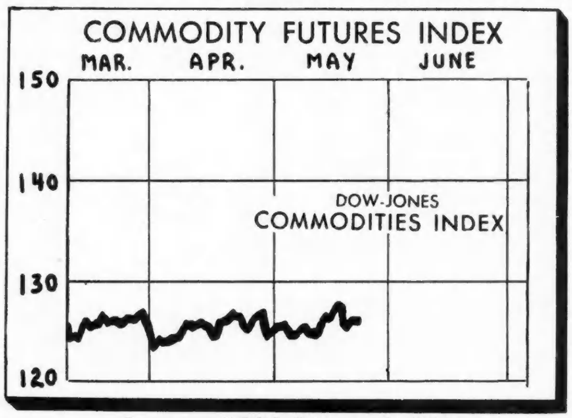
	Date May23	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	243.1	242.9	243.8	271.6	307.7	316.8	156.9
11 Imported Commodities	250.3	248.4	250.3	252.3	281.0	277.1	157.3
17 Domestic Commodities	238.5	239.4	239.1	285.6	326.4	345.4	156.6
7 Domestic Agriculture	292.2	287.3	287.5	295.6	317.4	368.0	163.9
12 Foodstuffs	283.3	278.8	279.9	286.4	350.8	391.5	169.2
16 Raw Industrials	227.3	230.5	232.5	267.0	280.8	269.1	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	143.5	149.2	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	123.87	139.83	117.14	93.90	55.45	46.59	45.03	52.03

What Is Behind The Bond Market Today?

(*Continued from page* 223)

securities. In view of the prospect of heavy taxation showing no signs of improvement, to say the least, it is probable that municipal bond prices before long may reverse their recent trend moderately and become firmer, but some time may be required to fully absorb the forthcoming supply.

As pointed out earlier in our discussion, the reason why prices of corporate bonds have stiffened in recent months has been largely because of shifts in demand and supply. Provided the yield on long term governments, however, remains close to 2½%, an almost certain expectancy, there is a practical limit to which an advance in prices for corporates can climb. Taxable government bonds of fairly long maturity now yield 2.4% compared with 3% for corporates in Moody's composite list. While at rare intervals the spread has been slightly narrower, it seems obvious that the variance in risk will deter any significant closing of the gap. There is still room, though, for the prices of medium or lower grade bonds to rise somewhat.

Special Survey of Low Priced Stocks

(*Continued from page* 232)

reducing their purchases of natural gasoline. The price behavior of Warren shares would indicate some apprehension on this latter score, probably with some exaggeration such as characterized last year's over-optimism. The current price of 16 leaves room for appreciation if general market sentiment improves, but heavy capital needs may preclude increased dividends, at least in the medium term.

Glidden Company shares, along with many others in the low price group, at 19 are limping along fairly close to their 1948-1949 low of 17⅞, this in face of assurances by the management last February that the outlook was very favorable for the balance of the fiscal year to end October 31. In the January quarter, though, sales were about 19% lower than in the corresponding 1948 period, while net earnings of 85 cents per share declined 28% and would have dipped faster except for reduced allowances for inventory reserves. Glidden shares established peaks of above 26 during all three years prior to 1949, but this was during the growth of the boom. Optimism of the management seems to rest on lower cost of materials that may compensate for price reductions and lower volume, both in the paint and food products divisions. Provided the danger of inventory losses is now largely passed, the road ahead may be smoother, but until this becomes clear, the shares are not apt to rise much, though the 40 cents quarterly dividend seems secure and additional small stock dividends may be declared. Paint sales recently have been lagging in line with lower building activity, and there has been some price pressure which may make for narrower profit margins in the future.

Popular Air Line Stock

Shares of Eastern Airlines are popular among speculators because of outstanding success by the management in operating profitably while competitors were running into the red. The shares, recently around 15, are about a point above their 1948-1949 low of 13⅞, a level where some resistance to a further downtrend was encountered. This was natural because net earnings of 54 cents per share in the first quarter reflected further traffic gains and improved efficiency. A price-earnings ratio of 15.3 reflects wishful future thinking (which may turn out to be well founded) rather than current results, and as no dividends have been paid yet, the shares are highly speculative. But the airline industry generally, and Eastern Airlines in particular, have made good strides towards more profitable operations and it is probable that under more confident market conditions, the stock might advance considerably percentagewise.

For three consecutive years, volume and earnings of National Distillers Products Corporation have consistently declined from their record height of 1946. The price behavior of the shares has rather closely followed the same pattern, a recent quotation of 18 comparing with the 1946 high of 32⅜. First quarter net of 71 cents per share was at an annual rate of $2.84, against $3.37 in 1948 and $5.01 in 1946 but first quarter net is never indicative of the full year results.

By midyear the company should benefit by larger supplies of aged whiskey, but so should most of its competitors, and the possibility of greater price competition cannot be ruled out. As the company has loans of $8 million maturing next year, it is possible that the quarterly dividend rate of 50 cents per share may seem somewhat generous if earnings do not improve over the first quarter showing as they likely will. The shares around 18 probably discount this potential but nonetheless at this stage have only moderate speculative appeal.

How Much More Shrinkage for Textiles?

(*Continued from page* 235)

1946, against 4/10th of 1 per cent in 1937; Colonial Mills 34.3 per cent in 1947, against 2.7 per cent ten years earlier; and United Merchants 18.8 per cent, compared with 5.2 per cent. For the most part, it may be seen that profit margins widened perceptibly over the war and pre-war period.

Now what about the industry's productive capacity and the threat of price competition? It has been pointed out by textile authorities that while population has been growing by some 25 per cent in the last quarter of a century, the number of cotton spindles in place has been steadily declining—from almost 38 million in 1925 to less than 24 million, or about 37 per cent. Production of cotton goods has not diminished, however, in spite of elimination of spindlage. Output has climbed to almost 10 billion square yards from about 7.3 billion in 1925, while per capita consumption is estimated to have risen to about 67 square yards annually from 63.6 in 1925. At the same time, rayon has been strengthening its competitive position at the expense of cotton goods, accounting for about 16 per cent of consumption of three principal textile fibres, compared with about 76 per cent for cotton and slightly more than 8 per cent for wool. For the average of 1936-1939, cotton accounted for about 83 per cent and rayon less than 9 per cent.

Production of cotton goods has been maintained with fewer spindles in place through adoption of the multiple shift system in most progressive mills. As a result, the average run of active spindles has been raised to well over 5,000 hours — as high as 5,793 hours in 1942 — compared with only about 3,000 hours twenty years ago. Although further progress in this direction is limited, wider adoption of new machinery offers possibilities for lowering labor costs. A high proportion of equipment faces replacement as additional machines become available, for it is estimated that more than 85 per cent of cotton spindles in place are more than eleven years old. Machinery manufacturers are able to produce no more than a million spindles annually, however, and a considerable amount of new equipment is being allocated abroad. It is estimated that since the end of the war, installations of new spindles have only approximately balanced those withdrawn from production.

The extent to which price competition is likely to undermine the industry is problematical. Unionization has spread to a considerable extent in the last ten or fif-

teen years and has influenced wage standards in the South, where low cost production originated in the 1930's to plague high-cost northern mills. In the last decade, the trend has been toward the South and most companies have acquired facilities below the Mason-Dixon Line as a means of reducing operating costs. There now are fewer marginal producers in position to turn out appreciable quantities of low-cost goods, because of higher wage standards and lack of distress stocks of raw materials.

The threat of overproduction and price cutting would be negligible if textiles manufacturers were in position to supply potential overseas demand. Although shipments to Europe have been aided by ECA appropriations, it is generally admitted that exports would be much larger if funds were available in other countries with which to finance purchases. Shipments declined sharply last year, for example, from an estimated peak of about 1.5 billion yards in 1947, about 15 per cent of domestic production.

Potentialities of the foreign market are readily understood when it is considered that productive facilities were virtually destroyed in Germany as well as in Japan and that only in the last couple of years has progress been made toward restoring textile facilities in these countries. Moreover, Great Britain has lost ground rapidly as a world market factor. Its productive facilities are regarded as "hopelessly obsolete and inefficient." More than 70 per cent of British yarn machinery is of the high-cost "mule spinning" type. Fewer than 5 per cent of looms are said to be automatic, as compared with more than 96 per cent in this country. British unit costs are reported much higher than those here despite the fact that the English worker's take home pay is less than half that of mill hands in this country.

When and if trade relations can be restored to a normal basis, it is reasonable to suppose that American textile manufacturers can capture a large part of the business available. Such a development could prove an important factor in sustaining the industry on a level well above that prevailing before the war.

Development of new fabrics and promotion of improved products also promise to withstand deflationary trends. Full potentialities of nylon, for example, outside the hosiery field undoubtedly have not been experienced. With increased competition from other materials, now that supplies have become abundant, nylon prices may be reduced sufficiently to broaden its use in underwear and other apparel. Even greater possibilities are envisioned for DuPont's newest product called "orlon."

Rising Consumption Trend

Partly as result of research in materials and design, consumption of textiles has steadily increased in satisfying a desire for better things. Consumption of textile fibres is estimated to have risen to 45 pounds per capita from 32.9 pounds twenty years ago. With national income so much higher now for the middle and lower classes of the population, there is every indication that demand for goods may increase even though general business conditions should recede slightly.

In considering the outlook for textile stocks, two fundamental questions need to be answered: How much further are price reductions likely to go?, and: How thoroughly has the stock market discounted current economic conditions? In endeavoring to supply the answers, all that one may hope to do is to direct attention to factors having a bearing on the problem. It always is difficult to formulate worthwhile conclusions on the extent to which the market has discounted any development.

There is reason for thinking that additional declines in cotton goods may be relatively small; in fact, the downtrend may have run its course for the present. Trade authorities also insist lower prices for woolen goods—except perhaps for less desirable constructions—are not to be expected. Rayons appear more vulnerable despite the fact that consumer demand should be more firmly established for synthetic materials. As a general proposition, the view may be expressed that the textile price structure is showing signs of stabilizing for the time being. Later on, if national income should be adversely affected by serious labor difficulties or by further recessionary trends in business, the in-

dustry undoubtedly would feel deflationary forces again.

In cotton goods price weakness appeared six to eight months ago with the result that production tapered in the fourth quarter of 1948. On the average it is estimated that prices of print cloth dropped about 40 per cent from last year's peak, while manufacturers reduced finished goods from 20 to 25 per cent. The effect on margins for producers as well as for finishers showed up in fourth quarter earnings declines. Excellent results in the first half made possible fine showings for the year as a whole. Meantime, however, retailers have been reducing inventories and have been ordering on a hand-to-hand basis. Such a policy has resulted in slower production schedules with spindle activity down 20 per cent from the first quarter of 1948. Gross mill margins on unfinished cloth have declined about 50 per cent from a year ago.

Prospects for further price cutting are dimmed by indications of strong support for raw materials. Cotton goods producers, faced with rigid labor costs and government supports for raw cotton, are more likely to suspend operations than to cut prices below their break-even point. With indications pointing to low inventories in retailers' hands and reasonably steady consumer demand, a turning point may be at hand in cotton goods.

Recent Price Trends in Rayon

In rayon, productive capacity has grown more rapidly than in other textiles in satisfying strong demand factors, and resistance to advanced prices has come later than in cotton goods. Filament yarn and staple output rose about 15 per cent last year to a new high record, while prices were advanced an average of about 10 per cent. In sympathy with other textiles, the price structure began to soften early this year and weavers cut prices as well as output about 20 per cent in the first quarter. Acetate staple fibres were shaded 12 to 15 per cent in March and April, while viscose quotations recently were cut about 8 per cent. Indications of an imminent turn are less apparent in this division than in cotton goods, but on the other hand production is concentrated in stronger and fewer hands with the result that output is subject to closer controls.

Conditions in woolen goods are not so readily ascertainable because finished goods markets are more volatile. Consumer habits are less dependable for suits, coats and other types of outer wear. Raw materials are reported none too plentiful for ordinary requirements, however, and trade authorities contend that the price structure is firm. Labor conditions are reasonably satisfactory, since union leaders have shown a realistic attitude in accepting settlements on basis of no higher wage scales. Inventories in hands of manufacturers and retailers are regarded as in no way excessive, and orders for future delivery have probably seen their lows for the current readjustment.

Freeport Sulphur vs. Texas Gulf Sulphur

(*Continued from page* 237)

The Hoskins Mound property in Texas has been in operation since 1923 and is gradually becoming exhausted. Held under sub-lease

from the Texas Company without limit of time, the terms provide a royalty of $1.06 per ton of sulphur payable to the fee owner and 70% of the net profits to the Texas Company after deducting the royalty.

Since 1933, though, Freeport Sulphur has been operating another property that has now become its chief source of supply. This, the Grand Ecaille deposit in Louisiana, is held under sublease from three major oil concerns, with a royalty of $1.05 per ton payable to the fee owners and a fixed royalty of $1 per ton payable to the oil concerns. Under this arrangement it is believed that net profits of more than 60% accrue to Freeport. Last year the company completed a program involving $7 million for the expansion and modernization of its Grand Ecaille facilities, pointing to long term output potentials and probably reduced operating costs. Production from this location exceeded one million tons last year for the first time. Freeport also leases another structure in Louisiana where, though search for sulphur was disappointing, the company struck oil and now has three wells in operation with others planned. Last fall, Freeport Canadian Mines, Inc. was formed to engage in minerals explorations in in the Dominion, while at the same time the company's wartime venture into Cuban Mining Co. was in the final stages of liquidation. These diversified activities show that the company's policies do not necessarily concentrate on sulphur alone.

Operating Properties

The principal operating propery of Texas Gulf Sulphur is its Boling Dome deposit on the Gulf Coast of Texas, though the company has established other reserves that in all give promise of ample sulphur supplies for at least 20 years. Boling Dome is a large property more than four miles in diameter, and Texas Gulf is already producing more than 2 million tons annually at this spot. The deposit was formerly acquired under lease from various oil concerns, Gulf Production Company being the most important with 85% of the holdings. In 1934, however, this latter lease was abrogated, the Gulf Production interests accepting 1.3 million shares of Texas Gulf stock in lieu of $3 per ton royalties, except for a small portion due to the fee owners. It was this relief from payment of sizable royalties that served to widen the companys' profit margins so well. In 1948, Texas Gulf Sulphur purchased 500,000 shares of its stock from the Gulf Production interests at $55 per share, a total of $27.5 million wholly derived from accumulated cash resources, and now holds the stock in its treasury pending a decision as to its disposal.

Simple Capitalizations

As matters now stand, the sole capital of Texas Gulf Sulphur outstanding with the public consists of 3.34 million shares of no par value. In contrast, Freeport Sulphur has outstanding only 800,000 shares of $10 par stock. Despite Freeport's smaller total earnings, its annual net income per share thus has exceeded that of its competitor in most years prior to 1948, as the accompanying chart will show. Last year, for reasons we have pointed out, Texas Gulf showed a sharp gain to $7.25 per share compared with $5.42 for Freeport, but it is possible that the completion of the latter's postwar program and its re-entry into export markets may tend to narrow the gap in the future.

Texas Gulf Sulphur has always distributed a much larger portion of earnings to its shareholders than its competitor has done, dividends in some years even exceeding current earnings. This, however, did not prevent cash resources from mounting steadily through the accumulation of reserves for depreciation and depletion. Even after the payment of $27.5 million to repurchase stock last year, working capital of $24.5 million still seems adequate to meet all normal requirements, as shown by a current ratio of 3.1. Holdings of cash and Government securities alone at the year-end exceeded current liabilities by a wide margin, while inventories accounted for less than 30% of current assets.

Relatively speaking, the financial position of Freeport Sulphur at the end of last year was even better, considering its smaller size and annual volume. Working capital of $23.9 million and a current ratio of 5.4 indicate a very comfortable status, especially as the company's improvement program has been completed.

Earnings Outlook

As the sulphur business is little subject to seasonal influences, 1949 first quarter earnings of these two concerns indicate that another good year is in prospect, unless a more serious general recession than expected occurs in the second half. In the first three months, Freeport Sulphur's net of $1.55 per share was at an annual rate of $6.20, and the management has lifted the quarterly dividend to $1 per share. Texas Gulf in the same period reported earnings of $1.90 a share, an annual rate of $7.60 and should continue to supplement quarterly dividend payments with liberal extras. As yet there is nothing to suggest lower sulphur prices, though in 1938 they were reduced by $2 per ton under recessionary influences. On the other hand, they held firm at the $18 level all through the more severe depression of the 1930s.

In relation to asset values, the shares of Freeport Sulphur seem to be more conservatively priced at present than those of Texas Gulf Sulphur, although a yield of 5.6%

versus 7.9% provides some ground for the differential. On the other hand, price-earnings ratios (to 1948 earnings) are exactly the same. Recent price of 47 for Freeport compares with a 1946 high of 61, almost identical with the similar mark established by Texas Gulf in that year. Currently, Texas Gulf shares are quoted around 63 and at their 1948 high reached 71¼. This seems to place rather heavy emphasis on current high earnings and dividends, for average net of Texas Gulf for the past ten years was $3.36 per share, well below last year's dividends of $5 per share. In contrast, average net per share of $3.75 reported by Freeport in the last decade was comfortably above the $2.62 distributed in 1948, though slightly less than the present $4 annual rate.

On balance, the shares of both companies have a good deal of sound investment appeal, but the appreciation potentials of Freeport Sulphur in any general market rise appear to be somewhat better, as well as its outlook for a more stable yield.

How Far Can This Recession Go?

(*Continued from page* 218)

vigorous anti-inflationary action, which it undoubtedly will do should production and employment drop to levels viewed as potential danger points.

An important factor is that there are also limits to price correction, inherent in present-day high production costs — particularly unit labor costs which in the long run determine basic prices of all manufactured goods. While business temporarily may be forced to sell at a loss, it will not long continue to produce at a loss. Thus the extent to which the wage structure is frozen in our economy, in the final analysis determines the limits of price adjustment. There may be some, though not too much leeway in downward wage adjustments; a better bet is an increase in worker productivity which traditionally accompanies recessive periods with rising unemployment, and production economies from modernized and extensively mechanized production processes plus some paring of profit margins. The problem is, considering all these factors, to establish new wage, cost and price relationships, the need to bring costs and prices back into line. Once achieved, this will provide a solid basis for production revival and future prosperity.

No one can tell, at this stage, how far we have gone in this direction. Most prices have constantly drifted downward, some had sharp breaks as in non-ferrous metals. Doubtless price adjustment has still some distance to go though it is well to bear in mind that in deflation, as in inflation, the price pendulum usually swings to extremes and prices seldom stabilize at the very bottom.

Securities Disturbing Investors

(*Continued from page* 239)

many years prior to the war, large over-capacity created a constant problem for producers of various forms of alcohol, items that account for a substantial portion of the company's normal output. During war years the situation was different, due to insistent military demand, and until about a year ago shortages of molasses and grains kept prices increasingly high. But in the latter part of last year, quotations for both of these ingredients, especially molasses, broke sharply, starting drastic breaks in alcohol prices and causing serious inventory losses for U. S. Industrial Alcohol that pushed the company into the red and precluded payment of dividends.

As a result of these changed conditions, holders of stock in this company are disturbed over a lapse in income, as well as the decline in the price of the stock which fell to 20 in contrast to highs of 42¾ in 1948 and 62 in 1946. Whether to hold on or to sell out has become quite a question with many. What intensifies the problem is a prospect that the alcohol price war may bring further troubles during 1949, as molasses seems sure to be in over-abundant supply and competition not only for alcohol made from this commodity but from synthetic alcohols as well is bound to be very severe. In time, of course, lower costs of materials will be a constructive factor, but meanwhile inventory problems may continue to be a headache until full readjustments are completed.

Earnings Prospects

Until the report of U. S. Industrial Chemicals for its fiscal year ended March 31 is available, it is impossible to appraise results for the full period, but statistics for nine months ended December 31 provide some clues. Declining sales of resins and solvents, together with lower prices for alcohol reduced volume for the nine months period 29% compared with a year earlier. Inventory write-offs of $3 million in the December quarter equalled about $6 per share and caused a loss of $3.92 a share for the nine months compared with a profit of $3.54 in the same 1947 period. Before the large write-down, however, a profit of about $1 million was realized, equal to $2.09 per share or an annual rate of close to $2.80. This is worthy of some consideration provided the drop in alcohol prices levels off, as in due course it must, but thus far in 1949 the process has not been significant.

A good deal of responsibility for a drop in alcohol prices from a top of 75 cents a gallon to a recent level of not much more than 20 cents has been heaped on the shoulders of Publicker Industries, Inc. This concern withdrew from the fermentation field during war years and to reestablish its position made a contract to purchase the entire remainder of the Cuban molasses crop, at prices to be tied in with those reeeived for alcohol. Start of a price war in alcohol correspondingly demoralized molasses prices and it looks as if in the current year they may be hardly a third of those for 1948. In this event, U. S. Industrial Chemicals may have to prolong its attempts to overcome inventory difficulties and to sell alcohol with satisfactory profits.

Curtiss-Wright Corporation

BALANCE SHEET ITEMS
($ million)

	December 31, 1948
Current Assets	
Cash	$12.3
Government Securities	64.2
Accounts and Notes Receivable	18.7
Inventories	31.0
Total Current Assets	$126.2
Current Liabilities	
Accounts Payable	$6.6
Accruals	4.0
Federal Taxes	18.2
Others	4.4
Total Current Liabilities	33.2
Net Current Assets	$93.0
Current Ratio	3.8
Reserves	$9.5
Profit and Loss Surplus	87.6
Total Assets	$155.6

It should be realized, though, that this company's activities embrace production of far greater quantities of resins, insecticides, anti-freeze, butyl and amyl alcohols, esters, ethers and plasticizers than industrial ethyl alcohol. Indeed, the latter item accounts for only about a third of the total business. Little by little the synthesized alcohol derived from petroleum has become increasingly popular and eventually may crowd alcohol derived from grain or molasses largely out of the picture. U. S. Industrial Chemicals has not only been purchasing large quantities of the synthetic material from the Shell interests but has completed an agreement with Stanolind Oil and Gas Company to take further sizable amounts from a new plant under construction at Brownsville, Texas, and by the end of this year will market the by-product chemicals produced by this modern facility. Given time, accordingly, the company's operations should be considerably stabilized, though marketwise it will meet increased competition from many of the leading oil concerns. The management evidently has confidence in the outlook, as shown by prospective 1949 outlays around $5 million for new

facilities of its own in the Brownsville area.

Because of heavy capital needs and the probability of reduced dollar sales and earnings during 1949, it seems very unlikely that the company will be in a position to resume dividends soon, though a strong working capital status may preclude the need for outside financing. Under peacetime conditions and with competition rife, it is possible that net earnings may revert closer to the prewar average of around $2 per share rather than the somewhat above $4 average reported in more recent years. Assuming a half way figure of $3 per share, the present price of 20 might leave room for ultimate appreciation under favorable conditions, but since no dividends are probable in the near term, the shares at this stage rather lack attraction.

Stable Earnings Outlook for Utilities

(*Continued from page* 229)

tude has perhaps been offset by an important court decision in Massachusetts which ordered the Commission to fix rates on a more exact and liberal basis with the idea of facilitating the sale of common stock.

In some states, of course, there is little or no statewide regulation. In Minnesota, Texas and Florida, this favorable condition prevails, although it is reported that Florida may shortly pass legislation giving the State Commission the usual powers to regulate rates and new financing. In Ohio, with its peculiar hybrid system of rate regulation, the important utilities are gradually winning out after long court fights. The large municipalities, such as Cleveland and Cincinnati, have tried to reduce rates while the state commission, acting as umpire, has protected the utilities. The Supreme Court of that state has backed up the Commission. Thus Cleveland Electric last year was able to retain its old rate structure, and discontinued escrowing a portion of revenues. Recently Cincinnati Gas & Electric has benefited (the stock advanced several points in a few days) from the Supreme Court's upholding of gas and electric rate schedules, approved last year by the Commission.

All U. S. utilities now appear to be earning an average of about 5.8% on their electric rate base, or slightly below the 6% which has usually been considered a "fair return." The return would probably be well below 5% if the utilities had been permitted to retain an estimated $2 billion of plant account (round figures) which they were ordered to write off by federal and state commissions. However, because of the rapid increase in plant account — about $1.5 billions annually so long as the present expansion program continues, these write-offs will gradually become less important in relation to the total.

It is now becoming uncertain whether the industry can obtain further rate increases as readily as the adjustments thus far permitted. The general deflationary trend is, of course, adverse. The outcome may depend somewhat on the important Consolidated Edison case — which involves about 10% of all U. S. electric revenues, the company being by far the largest utility. If the court rebukes the New York Commission for fixing temporary rates to yield only a 5% return, with the accounts arbitrarily twisted in various ways to increase the apparent percentage earned, this may help to retard anti-utility sentiment elsewhere.

Consumers Power has just announced a $6.5 million cut in its 1949 construction budget (out of $46 million) owing in part to the company's failure to obtain desired action to date on its application for a $6,800,000 annual increase in electric rates (as stated

above, the company got only about one-third the gas increase it had requested). This is the first large company to announce a reduction in its expansion program although it is rumored that Central Arizona Light & Power has cancelled an order for an 11,000 KW generating unit. It would not be surprising, however, if others should now readjust their plans and begin to "pull in their horns" a little.

The purpose of the utilities in embarking on their $6 billion program (now over half completed) was not only to take care of increased business but also to restore a more ample reserve of capacity. But they have learned in recent years, through increased inter-connection and by working their plants harder, to get along with a much smaller reserve than they used to consider normal and necessary. If earnings dip below present levels, and if the commissions and courts prove reluctant to grant further rate increases, the utilities might well decide to get along with the present (or a slightly higher) reserve capacity, and merely build enough new plant to handle the present load efficiently.

Shrinking Sales Gains

Earlier this year, electric sales showed regular weekly gains of about 6%-7% over last year. These gains were pretty well maintained through April, but in May the reports have been less encouraging—for the first week the gain was only 3.9% and for the second week 2.9%. In New England and the Mid-Atlantic states, output was about 3% under last year, and the overall gain for the country resulted from the favorable showing in the Far West and in the South Central section. (These weekly figures do not show any breakdown as between residential and industrial figures.) However, these cross currents are closely watched by the industry; the top executive of a big eastern system has indicated privately that in the past two or three weeks his expectations of a continued broad uptrend in electric sales have been shaken.

Earnings Prospects

While it is true that earnings in the second half may make a less favorable showing than in the first, it seems a mistake to assume that the utilities are becoming much more vulnerable to a decline in industrial activities as some analytical observers believe. During the 1930s, which afforded about as severe a test of utility earning power as can be imagined, net income declined about one-third. But at least one-quarter of the decline in net was due to higher taxes, and the decline in non-operating income was also an important factor. In 1938, when industrial activity again dropped sharply, utility income was affected only slightly, dipping about 5% — most of this being due to higher taxes.

Need for Flexibility

If past history is any guide, utility earnings should remain relatively stable, particularly in a period when commodity costs are on the down grade. It cannot be denied that the utility set-up has changed and that the proportion of fixed costs is now higher than in the 1930s. This doesn't mean, however, that the utilities have already overbuilt, though it is obvious that if they do not maintain a flexible building program, adjusted to changing conditions, they could eventually find themselves saddled with excessive overhead costs.

That the industry is aware of the need for flexibility in this respect is apparent from indications that it will consider a downward revision of their expansion budget unless there is an early increase in the demand for power by heavy industry customers. At this writing, the industry is reported to have an excess generating capacity of some 15% for the first time since the end of 1945, compared with only 5% a year earlier. From the standpoint of profit implications, however, this picture is far less alarming than it would seem for the simple reason that industrial clients represent the smallest portion of power sales revenues as mentioned before, the greatest return comes from residential and commercial customers; their demand fluctuates far less. What the new trend, if continued, will mean, however, is the possibility of a change in the financing picture.

Utility stocks today sell by no means at inflated levels. Current yields for high-grade operating company shares average about 6%, and price-earnings ratios about 12. In 1945-6 when we had a bull market in utilities, yields on the best stocks dropped to a little over 4%, and price-earnings ratios exceeded 20 in some cases. Considering the stronger position of the utilities now as compared with 1946, the investing public's confidence in them does not seem misplaced. Nevertheless, the stock market is no respector of assumed values though in the event of any general market decline, the utility stocks may be expected to show better-than-average resistance to the downtrend.

Where Do Securities Stand Today?

(*Continued from page* 221)

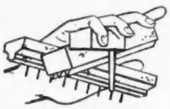
and lower overall business activity and where this is the case, it must be regarded as minimizing the future downward risk. Firm conclusions in this respect are, however, difficult and hazardous though they can be arrived at with greater assurance in such instances where the price shakeout has been drastic as in some of the cases previously cited. Where prices have discounted the gloomiest aspects, they should be able to take any moderate future setback in business without further spilling.

As I See It!

(*Continued from page* 213)

would almost certainly turn out to be a tragic mistake. The same holds true of potential inclination towards Russian appeasement on the part of any of the western powers in, say, a futile effort to save their interests in the Far East. Any such "deal," if attempted would be doomed to failure beforehand as we must know now. It would merely add another to the long chain of costly errors committed in the past in western dealings with the Soviets.

With disappointment and tension in Paris mounting and the cold war on again in Berlin where the Soviets have resorted to an unofficial rail blockade, prospects are fading fast for any overall agreement to which Vishinsky has already closed the door. Obviously he is now looking for an opening to split the western allies which he regards as his only chance to get a compromise favorable to Russia. Thus a test of the new western unity is likely before long.



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BOOK REVIEWS

ARABIAN OIL
America's Stake in The Middle East

Chapel Hill **$3.50**

By Raymond F. Mikesell & Hollis B. Chenery

Arabian Oil is the story of American petroleum interests in the Middle East since the 1930's and their relation to our national foreign oil policy.

Current public interest in Arabian oil is greater than in any other single foreign activity of American private enterprise. The spectacular discoveries of a strategic resource in desert countries about which little is known, the diplomatic struggles of the great powers, and the romantic appeal of the Middle East have stirred the imagination of the world. But behind this drama American oil companies are creating what may well become our most important single foreign investment from the standpoint of its size and significance to the American economy.

Arabian Oil provides a clear account of the tangled events leading up to the present dominant position of American enterprise in Middle East oil discovery and production. The development of the petroleum concessions in all of the Middle East countries is discussed, but major emphasis is given to the Arabian-American Oil Company's concession in Saudi Arabia, where the effects of the great oil discoveries upon the welfare of 4.5 million Saudi Arabians and the relations between Aramco and the Saudi Arabian Government are also explored.

Because of the current shifting of major world oil production from the Gulf-Caribbean area to the Middle East, the authors have also sketched a future pattern of world production and trade in this vital resource.

The final chapters of the book are devoted to a discussion of U. S. foreign oil policy including a review of the efforts of the U. S. Government to participate directly in Middle East oil operations, the proposed Anglo-American oil agreement, and the controversy over U. S. Navy oil purchases from the Arabian-American Oil Company.

This factual and technical study not only provides useful information regarding the technical, legal, and economic problems of oil recovery in the Middle East, but it also presents a significant case study of a foreign investment and its relation to U. S. foreign economic policy.

THE GATHERING STORM

By Winston S. Churchill

Houghton Mifflin Company **$6.00**

This book is unique. No great statesman of our time has had such a command of the English language. Few have had such a grasp of history or played so large a part in making it.

Mr. Churchill, throughout his career, preserved every scrap of significant material for the books he knew he would eventually write. Every order that he issued, every memorandum or personal telegram, was immediately set up in type, printed, and filed. "I doubt," he says, "whether any similar record exists or has ever existed."

The present book—probably the first of five—covers the period of the false peace and the growing challenge of Germany (when Churchill in opposition was consistently right) until the outbreak of the war, which the author had long predicted, and finally on to the climactic and terrible moment just before Dunkirk when Hitler seemed on the threshold of victory. Then Churchill at last became Prime Minister. All his life, he felt, had been a preparation for this hour.

The manner is as great as the matter. Churchill's words, as much as his acts, have made him the embodiment of the Allied cause. Every American knows his magnificent speeches, but not everyone realizes that he is a professional writer, a topflight historian and biographer who has supported himself through most of his life with his pen. Page after page of this book will go down to the future as permanent contributions to English literature.

CHINA, THE LAND AND THE PEOPLE

By Gerald F. Winfield

William Sloane Associates **$5.00**

This book presents for the general reader a complete assemblage of the basic facts and truths about modern China. In all the controversy concerning the problem of China one truth has been consistently obvious: the controversy itself has been carried on largely in ignorance of the facts determining the plight of China. They are here presented in dramatic and comprehensible form, and the author has gone to the very roots of Chinese life for his explanations. The result is a book which will endure for decades as a basic and invaluable description of the largest single population on the face of the earth.

In Part I of *China: The Land and the People*, the author presents, with a unique authority based on thirteen years of research on the spot and an intimate, living knowledge of China's language and people, a survey of her culture, geography, industry, agriculture, economy, resources, health, education, language, government, and society. The picture that emerges is of a huge, ancient, and vicious circle of cause and effect, of one problem aggravated by another, and also a picture of human patience in the face of disaster that is almost beyond American understanding.

Part II, building solidly on the facts surveyed in Part I, outlines a long-range program for China's reconstruction as a sound, contributing member of the world community of nations. The future of China is of immediate concern to that community of nations and of personal, legitimately selfish interest to every American. If China is to remain dismembered, disease-ridden, and impoverished, with approximately 500 million persons starving on the produce of three-fifths the amount of arable land available to 140 million Americans, she will inevitably continue to breed war and misery.

China's problems cannot be solved by easy political solutions, and *China: The Land and the People* will disappoint those who think in such terms. Her future depends in part on our actions; to succeed we must act in accord with a knowledge of the facts that determine her character and her plight. Here are those facts.

IRAN, PAST AND PRESENT

By Donald N. Wilber

Princeton **$3.00**

Among books on Iran this one is unique in combining an extensive first-hand knowledge of the country with a thorough documentation from source material in the Persian language. Mr. Wilber's contacts with government officials in Teheran have given him access to important data not previously published.

The book provides in compact form the answers to almost all the questions that can be asked about Iran. Factual rather than interpretive, it has two major sections: a consecutive story of the history, arts, languages, and religions of the country from 4000 B.C. to the present; and an exposition of the political, social, and economic structure of modern Iran.

This material will interest both the general reader and the person in search of specialized information. For the former, the survey of the country's turbulent past will illuminate such figures as Cyrus, Alexander the Great, Genghiz Khan, Tamerlane, and Shah Abbas, and the Persia that each shaped to his ambition. The section on modern Iran contains fascinating material about the life of the nomadic tribesmen and of Iranians in village and town.

For the specialist there is recent, accurate, hard-to-find information on such subjects as topography, climate, natural resources, oil production, foreign trade, roads and railroads, financial institutions, the educational system, trade unions, and the government.